FINANCIAL TIMES

World Business Newspaper

WEDNESDAY MAY 29 1996

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Yeltsin fulfils his election promise to visit Chechnya

Russian president Boris Yeltsin fulfilled a pre-election promise to visit war-ravaged Chechnya, telling Russian troops they had crushed a "mutinous regime" and secured victory in the bloody 17-month conflict. Mr Yeltsin spent four hours in the area as he sought to gain political advantage from a peace agreement signed in the Kremlin. Page 14; Editorial Comment, Page 13

Britain's Labour backs business in Europe:

Britain's opposition Labour party set itself apart from the current trend in British politics to unveil a pro-European business policy. The party's foreign spokesman, Robin Cook (left), said the policy was based on Labour's belief that "the EU is vital to the future prosperity of Britain". National elections must be held in Britain within a year, and recent opinion polls show Labour with a clear lead over the ruling Conservatives. Page 14; Observer, Page 13

Confusion over BSE figures: British government officials and farmers' leaders have no official records to indicate an animal's age at slaughter, and thus no figures from which to determine how many were 30 months old when the BSE crisis erupted. Page 9

Peres takes lead into polling day: Israeli prime minister Shimon Peres held a narrow lead over his rightwing challenger, Benjamin Netanyahu, in opinion polls on the eve of elections that will determine the future of Middle East peacemaking. Page 6; Editorial Comment, Page 13

Tax evasion distorts figures: European Commission statisticians said the economies of Belgium, Portugal and Greece were about 20 per cent larger than current figures suggest, because of wrong assessments over tax evasion and other semi-legal economic activity. Page 14

Ministers meet over N Ireland: British and Irish ministers met in Dublin but neither side were raising expectations of an imminent breakthrough on the decommissioning of arms in Northern Ireland, just two weeks before all-party talks. Page 9

US offers defence partnerships: The Pentagon has sent European defence ministries a list of more than 20 programmes which the US is prepared to open to international partners to head off criticism that the US defence market is closed to European companies. Page 4

Ferrero, the Italian confectionery group, increased worldwide turnover by 7.3 per cent to Fl7.23bn ($10bn) last year, and signalled its recovery from a devastating flood in 1994 which swamped the company's factory in north-west Italy. Page 16

Czech deficit grows sharply: The Czech koruna fell after government figures showed a sharp widening in the country's trade deficit for April to Kč38.9bn ($1.4bn) from Kč26.3bn ($950m) a month earlier. Page 2

Red Cross warns of food aid shortage: A Red Cross societies' report predicts a growing gap between food aid needs and supplies over the next few years and greater numbers of refugees. Page 6

Spain lowers growth forecast: Spain's centre-right government has cut its economic growth forecast for the year to 2.3 per cent, a full percentage point below predictions by the previous Socialist administration. Page 2

S Korean invasion plan: A North Korean pilot who defected to Seoul said Kim Jong-il had drawn up a war plan to capture South Korea within a week and pilots were training for a lightning strike. Page 8

Sandvik, the toolmaker, won one of the hardest fought cross-border takeover battles seen in the Nordic region when fellow Swedish company Svedala dropped a FM1.4bn ($294m) bid for Finnish industrial group Tampella. Page 15

China reassures HK democrats: China's top official on Hong Kong affairs eased fears about Beijing's stance towards democracy in the territory after next year's transfer of sovereignty, saying the Democratic party would be able to participate in politics. Page 8; Fishing for complements, Page 13

Former Iranian minister killed: Former Iranian cabinet minister Reza Mazlouman, who served as education minister under the late Shah, was found shot dead at his home near Paris.

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,722.96	(-39.90)
NASDAQ Composite	1,237.54	(-10.26)
Europe and Far East		
CAC40	2,132.90	(+15.25)
DAX	2,558.30	(+16.06)
FT-SE 100	3,760.2	(+8.1)
Nikkei	21,944.53	(+244.77)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.152%
Long Bond	89⅝
Yield	6.84%

■ OTHER RATES

UK: 3-mo Interbank	6¼%	(same)
UK: 10 yr Gilt	96⅛	(96⅛)
France: 10 yr OAT	105.68	(105.85)
Germany: 10 yr Bund	98.78	(98.88)
Japan: 10 yr JGB	98.5671	(98.2471)

■ NORTH SEA OIL (Argus)

Brent Dated	$19.54½	(19.74)

■ GOLD

New York: Comex		
(June)	$391.6	(390.9)
London:		
close	$392.0	(390.7)

■ DOLLAR

New York: lunchtime		
£	1.51265	
DM	1.54795	
FFr	5.23705	
SFr	1.2738	
Y	108.65	
London:		
£	1.5124	(1.5129)
DM	1.5483	(1.5414)
FFr	5.2366	(5.2162)
SFr	1.2743	(1.2649)
Y	108.625	(107.675)

■ STERLING

DM	2.3415	(2.3319)
Tokyo $ close:	Y 108.2	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.85	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kč60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£55.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L80,000
France	FFr11.50	Lebanon	LL3,000			UAE	Dh12.00

Klöckner-Humboldt-Deutz shares suspended after figures are uncovered

German group at risk over loss

By Judy Dempsey in Bonn

Klöckner-Humboldt-Deutz, the troubled Cologne-based engineering group, said its survival was threatened by "hundreds of millions" of D-Marks in hidden losses uncovered last week at its Humboldt Wedag plant engineering division.

KHD shares were suspended on the Frankfurt stock exchange before the opening, but shares in Deutsche Bank, the group's largest shareholder and creditor, fell slightly before recovering to close up DM1.11 to DM72.20.

KHD yesterday filed criminal charges against several Wedag executives and "outside parties".

Mr Anton Schneider, chief executive, was meeting foreign customers of Wedag in an attempt to clarify what had happened.

In a statement, KHD said irregularities were discovered at Wedag last Friday "that endanger the existence of the KHD group". It explained that "existing or impending losses in the plant construction sector were covered up and not consolidated in the balance sheet".

Wedag, which specialises in making cement plants, reported sales last year of DM1.5bn ($980m), nearly half the group's DM3.28bn total sales. The group's other main business is the manufacture of diesel engines.

KHD reported a net loss of DM174m last year compared with a DM308m loss in 1994. Its net borrowings at the end of the year stood at DM1bn. Last month, it said it was making substantial progress this year towards returning to profit, and forecast a loss of only DM48m for the year.

KHD said it was holding talks with Deutsche Bank, which holds a 47.7 per cent stake in the group.

Despite the group's speed in disclosing its predicament, the revelations are likely to embarrass Deutsche Bank. The bank has been criticised for its poor supervision and weak scrutiny of accounts of several companies which reported large losses over the past three years and in which the bank holds large stakes or had granted substantial credit lines. These include Jürgen Schneider and the Interhotel group, both property developers.

More significantly, Deutsche Bank had just last year agreed a restructuring programme at KHD aimed at hiving off unprofitable units, cutting costs through speeding up delivery times and reducing the costs of components. That programme involved a DM919m rescue package to prevent bankruptcy to which Deutsche Bank contributed over half the financing.

Lex, Page 14

Deutsche Bank income up 32%

Deutsche Bank, Germany's biggest bank, expects a further profit improvement this year after a 32 per cent rise in net income to DM770m ($499.5m) in the first four months, writes Andrew Fisher in Frankfurt. But Mr Hilmar Kopper, chairman, said the bank's return on equity was "still not satisfactory". Results, Page 16

India's small parties set to rule as BJP quits

By Shiraz Sidhva in New Delhi

The United Front, a group of small parties in India representing regional, rural and lower caste interests, was last night asked to form the next government after the collapse of the country's shortest-lived administration.

Mr Atal Behari Vajpayee announced his resignation as prime minister before a scheduled parliamentary vote of confidence in his Bharatiya Janata party which he had been expected to lose. The party, which had formed India's first Hindu nationalist administration, had been in office less than two weeks.

The United Front, headed by Mr H D Deve Gowda, chief minister of the southern Karnataka state, gained the support of Mr P V Narasimha Rao's Congress party to topple the government after rejecting its policies as anti-Moslem.

Mr Gowda said that President Shankar Dayal Sharma, having accepted the government's resignation, called on him to form a replacement. He said he had been asked by Mr Sharma to prove that he had a majority in parliament by June 12. The upheavals follow a general election in which no party won a majority.

BJP leaders, reflecting the views of India's business community, said the incoming government was so disparate that it lacked "any sort of programme or cohesion". It was "only a matter of time" before fresh elections were called, and they were "waiting in the wings to assume power again".

"The Front is anything but united, and even last month, their main opponents in elections were the Congress, the very party whose support they are enlisting to form a government now," said Mr Pramod Mahajan, defence minister in the short-lived cabinet.

The Bombay stock market index fell 17.09 points yesterday to 3,636.01. The market has lost more than 200 points in the last two weeks, reflecting the political uncertainty. The United Front

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Opposition parties take to the streets to demonstrate anger over elections

Albanian police clash with protesters after poll

By Kevin Done and Marianne Sullivan in Tirana

When a statue of Stalinist dictator Enver Hoxha was torn down in Albania's Skanderbeg Square six years ago, it heralded the overthrow of the last communist regime in east Europe. The same square was the site of a new chapter of violent confrontation yesterday.

Under black skies and in torrential rain, riot police and paramilitary units stormed across the square, forcing demonstrators to flee from the kiosk cafes and funfair carousels that have sprung up in four years of fledgling democracy and economic reform.

In front of the oppressive communist-era buildings that dominate the centre of Tirana – and two days after withdrawing from a general election alleging massive fraud at polling stations – the country's opposition parties tried to bring their protest to tha streets.

"The election was false," said one protester. "We wanted to show this. Where is pluralism now, when all tha MPs are from one party. Now only the name has changed, this is not democracy, this is dictatorship."

Some protesters were baaten and kicked, as were passers-by caught in the violence. In the midst of the thunderstorm, police reinforcements and special unit forces in fatigues arrived and attempted to take control of the city centre.

Albanian riot police lining up in front of Tirana's mosque during clashes with opposition groups in Skanderbeg Square. The groups were protesting against the alleged manipulation of Sunday's general elections
Picture: Reuter

"This is dictatorship. Wa cannot hold our meeting," said one 73-year-old pensioner, who had come to join the protest. As we were forced to seek protection inside a kiosk, his companion, another pensioner said: "There is no democracy, this is fascism we see with our own eyes."

For the past two days, the streets have belonged to the raucous celebrations of the triumphant supporters of the ruling Democratic Party of President Sali Berisha, and the first signs of opposition protest were met by a show of overwhelming force.

The communists were swept from power in an election four years ago, but the country is yet to recover from the brutal, isolationist rule of Mr Hozha. Before the alection, Mr Berisha's party had been confident that Albania would remain one of the few places in central and east Europe where voters had not chosen government by former communists.

International observers sent to Albania to monitor the election witnessed the events. "The police grabbed people and hit them, they dragged them to a corner of the square and beat them just for punishment," said Mr Soren Sondergaard, a Danish member of parliament.

Western ambassadors decided yesterday to delay pnblication of a report on the election prepared by international observers under the leadership of the Organisation for Security and Co-operation in Europe. Fearful of inflaming tensions, the diplomats referred the report to a meeting of the OSCE council in Vienna tomorrow.

OSCE observers from the UK, Norway and Germany, shocked at the events in Skanderbeg Square, issued an independent statement: "The elections did not meet international standards for free and fair elections and they did not conform with the requirements of the election law."

The Central Election Commis-

Continued on Page 14

UK regional power company ponders bid for water group

By Simon Holberton in London

Southern Electric of the UK was last night urgently considering whether to top Scottish Power's £1.56bn ($2.37bn) bid for Southern Water, the south-east of England water utility.

Southern Electric, the regional electricity company, had a series of meetings during the day with Southern Water and BZW, its merchant banking advisers.

It confirmed that it was in takeover talks with Southern Water, although it stressed it wanted to mount a bid with the endorsemant of Sontbern Water's board.

An adviser to Southern Electric said a merger with Southern Water made "an awful lot of commercial logic" and that if it were going to bid it would have to make a decision "pretty rapidly".

As expected, Scottish Power yesterday announced the terms of its bid which includes a share and cash offer initially valuing Southern Water's shares at 975p. An all-cash offer valued each Southern Water share at 935.7p.

The share price of Scottish Power fell 17p to 319p, lowering the value of its cash and shares alternative to 953.24p and tha bid's total valne to £1.52bn. Sonthern Water's share price rose 260p to 941p – above Scottish Power's cash bid.

Sonthern Electric, which might be expected to bid up to £10 a share for Southern Water, was off 26p at 726p.

Bid speculation boosted other share prices in the water and electricity industries. Anglian, Wessex and Yorkshire water companies were strongly higher, as were London Electricity and Yorkshire Electricity.

Included in the terms of the Scottish Power offer is a promise to cut domestic water prices by 3 per cent to Southern Water's customers for two years starting in April 1998.

Scottish Power said a combination with Southern Water would create the leading "multi-utility" business in Britain. Mr Murray Stuart, chairman, said "the merger will lead to increased sales of electricity, gas and water-related services, and boost competition and enhance customer choice".

He said it was a further step in the company's strategy of building businesses and that Scottish Power was confident the deal would deliver value to both companies' sharehulders.

Analysts said the deal was driven mainly by financial considerations. Southern Water had little debt on its balance sheet and was a cheap investment for Scottish Power, or for Southern Electric if it bids.

The Southern bid battle represents the first time that a rec has bid for a water company.

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Scots raid south again, Page 20

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Spending cuts planned to help offset loss of tax revenue

Spain lowers forecast for growth

By David White in Madrid

Spain's new centre-right government has scaled down its forecast for economic growth this year to 2.3 per cent, a full percentage point below initial predictions by the previous Socialist administration.

It accepted yesterday that the slowdown, with its impact on government revenues, would make it harder for Spain to achieve its budget targets for qualifying for the single-currency phase of European monetary union, but said planned spending cuts would help to offset the loss in tax income.

Mr Rodrigo Rato, the economy and finance minister, blamed the Socialists for a fall in the growth rate in the first quarter to about 2 per cent, compared with 2.6 per cent in the final quarter of last year and 3 per cent for the whole of 1995.

"This is the cost of delaying the elections," he said. But he expressed the hope that demand would pick in the remainder of the year.

A statement issued after the first meeting of an inter-ministerial committee on government expenditure said the Pta200bn ($1.56bn) spending cut announced earlier this month should keep the main government budget on target, but warned that prospects for keeping the social security budget on track were "more dubious".

Mr José Barea, the head of the government's new budget office, has said that the social security shortfall would require further savings of between Pta400bn and Pta500bn this year.

Spain aims to bring its overall budget deficit down from 5.8 per cent of gross domestic product last year to 4.4 per cent this year and 3 per cent in 1997. The latter is the target level for joining the first group of single-currency countries.

It remains unclear where the budget cuts, announced three weeks ago and widely regarded as falling short of requirements, will be made. Ministers have been given up to June 1 to decide which programmes should be sacrificed.

The government's hopes of a revival in growth are based on expectations of lower interest rates, the prospect of a good farming year and economic liberalisation measures, particularly affecting laws on land use.

Mr Rato said that industrial production figures for March "could point to a recovery in internal demand" – even though they showed a fall of 6.6 per cent from the same month last year. When adjusted for the number of working days, the drop was a smaller 1.3 per cent.

Plans for a package of "reactivation measures", including tax benefits for small companies, were confirmed yesterday by Mr Cristobal Montoro, secretary of state for the economy. He said the fiscal measures would be "the first steps" in a tax reform that the government aimed to complete by the end of its four-year term.

Czech deficit in foreign trade widens sharply

By Vincent Boland in Prague

The Czech trade deficit widened sharply in April, government figures showed yesterday. They are the last set of economic figures before next weekend's general election.

The country's statistics office said the cumulative deficit for 1996 rose to Kč38.9bn ($1.4bn) at the end of April from Kč26.3bn ($950m) a month earlier, as imports once again outweighed exports. The figures prompted the currency, the koruna, to fall slightly against the US dollar and the D-Mark in heavy trading.

The underlying figures contained some encouraging news for the government of Mr Václav Klaus. Growth of exports, at 17 per cent for April, outstripped that of imports, which grew by 12 per cent.

The data showed that the share of overall exports represented by manufactured goods rose more rapidly than in previous months, suggesting exports of high value-added products were gaining momentum.

A high and growing trade deficit has been one of the features of the Czech economy in the past two years. The total deficit for 1995 was nearly Kč100bn, and economists have forecast the deficit for this year could reach Kč140bn, or between 4 and 6 per cent of gross domestic product.

There have been substantial imports of capital equipment by Czech industry to modernise production facilities and improve the quality of exports, which to date have competed on price rather than quality.

Mr Kamil Janáček, chief economist at Komerční Banka, said there was growing evidence that this investment was paying off, and should help to close the gap gradually between growth of imports and exports.

Some economists doubt this will happen quickly enough. In a report this month on prospects for the Czech economy, the investment bank Patria Finance warned the deficit would continue to grow unless domestic demand was restrained and companies gained a larger export share "by drastically improving productivity".

The government has argued that a trade deficit is a natural result of a transforming economy seeking to modernise its outdated industrial infrastructure. They also point to a high surplus in services such as tourism, which slashes the overall current account deficit.

The size of the deficit caused few surprises in the market yesterday, but prompted renewed speculation about prospects for the koruna, which has enjoyed modest appreciation since the central bank eased its monetary policy at the end of February to allow it more leeway to fluctuate against other currencies.

Mr Zdeněk Tůma, chief economist at Patria, said a gradual depreciation was likely later in the year or in early 1997, slightly easing the pressure on the deficit.

Central Europe set for strong growth

The economies of central Europe are expected to experience strong growth over the next two years, in sharp contrast to the sluggish performance of their western neighbours, the European Commission said yesterday, Reuter reports from Brussels.

In a survey covering 10 countries, Brussels estimated that total output would rise on average by 4.7 per cent this year and 4.9 per cent in 1997. Inflation, which soared by 23.7 per cent last year, is expected to advance by 17.7 per cent this year, slowing further to 14.3 per cent in 1997.

"Average gross domestic product growth in the 10 associated Central European countries is expected to slow somewhat to just below 5 per cent in 1996 and 1997," the Commission said.

GDP expanded by 5.2 per cent last year, against 4 per cent the year before.

Strong private consumption, made possible by high real wages, and increased investment were behind the expected surge in growth in the countries concerned, the Commission said. But robust domestic demand was blamed for a surge in imports which was affecting trade balances.

The report noted that continuing expansion was starting to have a positive influence on employment in the most advanced economies. On the inflation front, a more benign environment was attributed to the nearly completed transition to market determined prices.

The 10 countries surveyed are Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Communist candidate Gennady Zyuganov seems certain of the vote of this woman who planted a kiss on his cheek during his campaign visit to Novocherkassk in eastern Russia Reuter

Red flag flies high over rival Russian camps

Chrystia Freeland on poll appeals to patriotism

When Mr Anatoly Lukianov, a leading figure in Russia's revamped Communist party, looks out of his window, he complains that symbols of western imperialism are spoiling his spectacular view of the Kremlin.

"Look out of my window, on to Gorky Street, and all you can see is foreign signs – for Sharp, Gillette and so forth," he says, pointing to the thicket of foreign advertisements visible from the generous offices he occupies as chairman of the parliament's legal commission.

Foreign visitors and Moscow's growing business elite see the neon signs and bright billboards as encouraging evidence that Russia is moving to rejoin the world economy. But Mr Lukianov, a former member of the Soviet politburo, and his comrades in the Communist party see them as humiliating symbols of western domination.

"The more of these signs there are, the stronger the patriotic reaction will be," he says. "There will be more and more demands of a patriotic character, demands for limits on foreign advertising, for more Russian films on television, people may even begin to break windows if they have foreign signs on them."

Mr Lukianov's muscular nationalism, with its unashamed hostility towards the west, is emerging as a dominant theme within the Communist coalition which is hoping to be voted back into power in next month's presidential elections. This shift is reflected even in the name of the left-wing coalition backing Communist presidential candidate Mr Gennady Zyuganov – the National Patriotic Front.

Fearful of alienating Russia's growing middle class, the communists have moved away from Marxist economic orthodoxies and routinely vow that private property will be sacrosanct if Mr Zyuganov is elected.

Although their economic programme, published at the weekend, outlines a return to greater state control (which western analysts warn would have disastrous consequences), Russian observers recognise it as only a distant cousin to the highly centralised economy built by Soviet communists. As one Russian journalist put it after a recent presentation by Mr Yuri Masliukov, the chief "red" economist: "I like your programme, but what does it have to do with communism?"

By playing the nationalist card, the left is hoping to capitalise on the emotional loss Russians have experienced since the collapse of communism and the Soviet Union five years ago. In eastern Europe and the other former Soviet republics the painful economic dislocation was at least partially offset by throwing off decades, even centuries, of Russian domination.

But, for Russia, the painful transition to capitalism has been aggravated by the loss of empire, of international standing, even of national identity.

"We communists always understood perfectly well that the Soviet man, the citizen of Russia, had fewer political rights than a European," explains Mr Lukianov. "But that shortfall was compensated for by the sense of belonging to a great nation, a great state.

"What did Mr Yeltsin do? He took away that sense of world importance. Any party which takes advantage of this today will be on top. That is why the communists have so many patriotic slogans, slogans of statehood, of nationhood."

This point has not been lost on President Boris Yeltsin, who has thrown all of his prodigious energy into beating the communists at their own game. The red communist flag has been restored to official status, the Kremlin leader this month presided over a lavish Victory Day parade in Red Square and, like his communist rivals, has taken ostentatiously to displaying his bond with the Russian Orthodox Church, the official religion of the Tsarist state.

But the president's shift to the nationalist camp could also mark a dangerous watershed in Russian history. By, quite literally, again raising high the red banner, Mr Yeltsin has abandoned the effort to forge a new, post-communist and post-imperial Russian identity.

Creating this new national image would be no easy task, because before they can construct a new, democratic national myth, Russians must confront their murderous communist past. Worse yet, unlike the former Soviet satellite states, Russians have no one to blame but themselves for the brutal dictatorship they built in their own country and imposed on their neighbours.

As Mr Sergei Kovalyev, a dissident in the Soviet era who has become one of Russia's most respected democratic politicians, argues: "Of all the defects in today's Russia, the one with the most dangerous consequences is our total inability to acknowledge our own guilt. It is always the fault of the Jews or the Georgians or anyone else, not us. Russians see themselves as a very unfortunate and wounded, but totally innocent, nation."

For the Communist party, Russia's failure to undergo a process of national repentance is a political gift ahead of the June 21 presidential elections.

Albanian election rigged, say poll observers

By Kevin Done and Marianne Sullivan in Tirana

International observers yesterday described how the elections in Albania had been manipulated to favour the government, as opposition parties complained of fraud at the ballot box and police beatings at yesterday's demonstration in the capital, Tirana.

Mr Paul Keetch, a British observer in the heavily Socialist oil town of Kucova, south of Tirana, described how up to 40 per cent of the votes cast for the Socialist party at some polling stations had been made invalid.

"They were invalidated by Democratic party members at the polling stations. We saw other ballot papers being openly prepared by the polling clerks.

"When votes were tipped out on to the counting tables there were bundles of votes together. The boxes had been opened before and bundles of ballots put inside. We looked at the bundles, they were all in the same hand, they were all marked in the same way and they were all Democratic party votes.

"There were bundles of Socialist party votes that had been ripped or marked to make them invalid."

He said "groups of thugs" had intimidated voters at the polling stations. "This election was little short of a farce."

One western diplomat said that some ballot boxes had been stuffed with papers before voting had begun. At other polling stations there had been multiple voting.

In the southern city of Berat "it was like an armed camp, there was massive intimidation", he said.

Observers from the Organisation for Security and Co-operation in Europe said: "The presence of armed police and unauthorised persons around and inside the polling stations in many cases led to an atmosphere of intimidation and coercion. Observers also witnessed cases of beatings and threats. The general pattern of intimidation had a significant impact on the election process."

At a press conference held by opposition leaders after yesterday's demonstration, Mr Neritan Ceka, chairman of the Democratic Alliance, a centre-right opposition party, called on Europe and the US not to recognise the elections.

"People know their votes were stolen. If Europe recognises these elections, it abandons a whole people."

Limping and still bleeding from a head wound, Mr Blendi Gonxhja, a candidate for the Socialist party – formed from the former ruling Communists – said: "More than 80 per cent of the Albanian people were cheated by having their votes stolen. It is up to European institutions now."

Inside the Socialist headquarters, dozens of deputies and supporters beaten by police were being treated by doctors. In the office of Mr Servet Pellumbi, the party leader, members and officials gathered, to find news of detained opposition politicians as telephone lines and electricity were cut.

"Albania has become a jungle and unfortunately one with the name of a democracy," said Mr Pellumbi. The government was no longer in control, he said, predicting that people in other cities with strong Socialist support would join in the anti-government movement. "The conflict is no longer between political parties, but between [President Sali] Berisha and the people."

EUROPEAN NEWS DIGEST

Pressure grows on Milosevic

President Slobodan Milosevic of Serbia yesterday summoned the Bosnian Serb leadership to Belgrade in an attempt to force the resignation of their chief, Mr Radovan Karadzic, and army commander, General Ratko Mladic. Both are wanted on war crimes charges. Under intense US pressure to hand over the two men to the UN war crimes tribunal in The Hague before a summit in Geneva on Sunday, Mr Milosevic was yesterday locked in secret talks with Mr Karadzic and Gen Mladic, according to VIP, the Belgrade news service.

Washington has threatened to reimpose sanctions on Belgrade unless Mr Milosevic complies fully with the Dayton peace agreement, which bans indicted war criminals from holding elected office. Mr John Kornblum, assistant US secretary of state and the senior negotiator on Bosnia, is due in Belgrade later this week. He is likely to exert more pressure on the Serbian president to get rid of Mr Karadzic.

International envoys have stepped up efforts to force Mr Karadzic to step down, fearing that his hardliners will sabotage Bosnia-wide elections planned for September. In spite of the pressure of renewed sanctions, Mr Milosevic may fear a backlash among Serbs if he were to extradite Mr Karadzic, as well as what light his proxy-turned-rival might shed on Belgrade's role in the war in Bosnia if he were to testify before the tribunal. *Laura Silber, Belgrade*

Yilmaz refuses to budge

Mr Mesut Yilmaz, Turkey's prime minister, yesterday rejected demands by the Islamist opposition Refah party that parliament be reconvened from a pre-election recess to hold a no-confidence vote in his conservative minority coalition government.

On Monday, Refah demanded he quit because the constitutional court had ruled that the vote of confidence his government received in March was invalid. But Mr Yilmaz said "the court's decisions are not binding until they are published. Its decision is not retrospective. If Refah's claim were valid, the constitutional court would have accepted their demand for the government to be dissolved".

He indicated that parliament's speaker, a member of his Motherland party, would reject Refah's demand for a no-confidence vote to be held on Saturday. Mr Yilmaz said Refah's attempts to discredit his government were merely an electoral tactic. Local elections will be held in 40 towns and districts on Sunday. Refah is expected to perform well, in large part because the bitter rivalry between Mr Yilmaz and his coalition partner, Mrs Tansu Çiller, has paralysed the government. *John Barham, Ankara*

Belgian PM outlines reforms

Mr Jean-Luc Dehaene, the Belgian prime minister, yesterday announced policy outlines to reform the budget, social security systems and employment laws as the first step to pushing through changes by decree. The Belgian parliament earlier this month agreed to give the government special powers to legislate by decree in certain areas of policy. Once the parliament has agreed the framework laws announced yesterday, Mr Dehaene will be free to implement the detailed policies.

"Once the framework laws are agreed, it will be up to the government to work out the executive measures needed to complete the policy initiatives," a government official said.

The agreements commit the government to limiting the budget deficit to 3 per cent in 1996 and 1997. It currently stands at 3.2 per cent. Belgium had hoped to strengthen its chances of admission to the final stage of European monetary union by meeting the 3 per cent budget deficit target a year earlier than necessary. The policy document calls for reforms to the social security system and measures to improve employment levels in Belgium. *Caroline Southey, Brussels*

Week 'call-up' for French youth

President Jacques Chirac last night followed the recommendations of French parliamentary committees and proposed to retain only a nominal week-long session of "civic indoctrination" for French youth when the current system of a compulsory 10-month military service is phased out in 2002.

Speaking on television last night, Mr Chirac said he agreed with parliamentary proposals the government would make into legislation in the autumn. These call for a "civic rendezvous" of a week during which 18-year-old boys, and eventually, girls would be subject to health and aptitude tests and informed of forms of voluntary service – military, foreign humanitarian and social work – they might volunteer for. This will enable French authorities to keep an up-to-date register of the country's youth, so they could be recalled to the colours in an emergency.

■ Prime minister Alain Juppé said yesterday that he would not be pushed by Corsican nationalist threats into granting the island greater political autonomy. Independence for Corsica was out of the question because "Corsica is part of France," he said. *David Buchan, Paris*

IMF and Bulgaria agree terms

The International Monetary Fund mission sent to Bulgaria during the country's financial crisis has left, saying it had reached agreement "in principle" with the Socialist government on a new standby loan to back an economic reform programme.

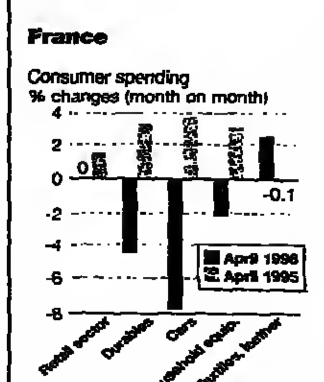
President Zhelyu Zhelev said yesterday he was ready to approve a new bank deposit guarantee bill, one of the measures agreed with the IMF. The bill, approved by parliament last week, would protect deposits in banks declared bankrupt under new procedures. The new legislation has failed to calm nerves among depositors, and many Bulgarian banks are still besieged by people seeking to withdraw money.

The Bulgarian currency, the lev, continued weakening yesterday in spite of a record high central interest rate of 108 per cent. Foreign exchange reserves shrank to $650m by the end of April from $1.3bn at the end of 1995, leaving little scope to support the currency.

Finance ministry sources say Bulgaria's new fourth standby agreement with the IMF will be for $400m, with additional funding expected from the World Bank which still has a mission in Sofia. *Theodor Troev, Sofia*

ECONOMIC WATCH

French consumers spend less



French consumer spending fell 1.4 per cent last month, due mostly to a sharp drop in car registrations, the national statistics institute Insee said yesterday. Consumer spending in the retail sector was unchanged in April after a 2 per cent fall in March. This result was due in part to weather-related factors and occurred despite an unfavourable number of working days. Insee said that, in April, consumer spending on cars fell 7.8 per cent after a drop of 0.2 per cent in March and a 2.1 per cent decline in February. January had seen a rise of 21.8 per cent. Year-on-year, consumer spending in the motor sector was up 3.8 per cent in April. *Reuter, Paris*

■ Employment in Italy's main industrial companies continued to fall in February. Employment in companies with more than 500 workers was down 0.5 per cent from a year earlier, compared with year-on-year falls of 0.4 per cent in January.

■ Spain's industrial output fell 6.6 per cent in March from a year earlier, compared to a 0.9 per cent increase in February.

Romanian bank seeks yet more funding

Virginia Marsh reports on the troubles of a once admired institution

Dacia Felix, the troubled private Romanian bank, is hoping to obtain further emergency funding from the country's central bank, on top of the more than 1,000bn lei ($335m) it has already received.

Its president, Mr Vasile Dumitru, said yesterday in an interview that the bank needed additional financing until it could recover money it was owed – mainly by one of its principal shareholders – and repay the central bank and its other creditors.

The bank, which was once considered one of Romania's most successful private organisations, was placed under central bank supervision last November after, among other things, it emerged that it had made large loans to companies linked to Mr Sever Muresan, its largest shareholder.

Mr Muresan, a former tennis star who once brought Mr George Bush, the former US president, on a private visit to Romania, is one of the country's best known entrepreneurs.

Mr Dumitru said Mr Muresan's companies owed the bank more than $300m – a sum several times larger than the bank's subscribed capital – and that it had begun proceedings to recover the funds in Italy, Switzerland, Germany and Britain.

It was also trying to recover outstanding loans for large amounts from other companies, several of them in Cluj, the Transylvanian town where the Dacia Felix was founded in 1991. He claimed the bank would be able to recover much of the money owed by the autumn and that it could then relaunch its activities. But creditors have found it difficult and time-consuming to pursue claims in local courts. Although Romania has a bankruptcy law, it has been used successfully against only a few companies.

Dacia Felix's problems are the worst crisis to hit the country's emerging banking sector since the start of market-led reforms in 1990, and the central bank has been heavily criticised for failing to act earlier.

A senior local banker said it was "outrageous" that the central bank had waited so long before intervening and that it had used so much public money to prop up the bank.

Although Dacia Felix was placed under supervision last November, it was not until March that a new management team, headed by Mr Dumitru, formerly head of one of the bank's main branches, was installed.

At the same time the central bank banned several board members and leading staff from working in the banking sector for five years, citing "grave violations of banking norms".

The bank has reported losses of 642bn lei for 1995, after large provisions for bad debts, and corrected its 1994 result to show a loss of 60bn lei as opposed to the 22bn growth profit previously reported.

Mr Dumitru said, however, that the bank expected to make a profit this year and was in talks with potential investors.

Industry analysts say the central bank appears to have decided to keep Dacia Felix afloat to protect small investors and to boost confidence in the country's fledgling financial sector. Confidence has been hit recently by problems at other private banks and at Safi, the country's leading mutual fund, which earlier this month was suspended for 90 days.

The central bank's decision to prevent Safi from redeeming 7.8bn lei in deposits from Dacia Felix last week prompted fresh speculation that the bank was about to go under, causing panic among some depositors.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd. London and F.T. (Germany Advertising) Ltd. London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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NEWS: EUROPE

German building sector's wage deal blocked

By Wolfgang Münchau in Frankfurt

The German construction industry is bracing for an industrial dispute after emplnyers yesterday blocked a minimnm wage intended to price fnreign workers out of the German labour market.

The BDA, the federal German employers' association, formally vetoed the move.

Under the law implementing the minimom wage for the construction Industry, the emplnyers and nnions were responsible for agreeing how moch it sbould be, subject to ratification by a tripartite body, inclnding the BDA.

The employers' decision has increased the likallhood of industrial action in the building industry and highlights a deep split amnng German emplnyers over wages policy; large number of building employers were in favour of the agreement.

Construction employers and the IG Bau building workers' union reached a provisional minimum wage accord last month, giving West German construction workers a minimnm wage of DM18.60 ($12.20), and east German workers DM17.10. This compares with a going rate of abont DM12 earned by a typical foreign EU worker on a German building site.

The BDA said it had vetoed the deal because the minimnm wage had been set too high and would lead to more business failures and unemployment. Mr Norbert Blüm, the German labour minister, who is a strong supporter of the minimnm wage, accnsed employers of "letting down not only the employees hnt also their own members".

Opposition politicians yesterday called for statutory minimnm wage to be set by parliament, hypassing the BDA. Mr Klans Wiesebügel, president of IG Bau, said: "The employers have acted for selfish political reasons. They are prepared to play one set of workers off against another. In doing so they put the survival of the mid-sized construction industry at risk."

It is unlikely that IG Ban will agree to a lower minimum wage – the union has stated firmly that the deal, which was coupled with an unusually moderate wage rise, was final.

Supporters of the minimum wage say setting a unifnrm rate would ensure a level playing field for large and small companies, and increase the competitiveness of smaller concerns.

Opponents claim that the minimum wage wonld drive np total wage costs, resulting in an increase in unemployment. IG Ban says that the lack of a minimum wage put German construction workers at a disadvantage, since they themselves are snbject to a *de facto* minimum wage because of collective wage agreements, while foreign EU workers are not.

The dispnte over the minimum wage also coincided with the worst downturn the construction indnstry has faced since the second world war, brought on by the end of the post-unification construction boom and a general economic downturn.

Chancellor Helmut Kohl (right) and Italian prime minister Romano Prodi who was in Bonn yesterday for talks on next month's EU summit. Mr Prodi was on his first foreign visit since his centre-left coalition won Italy's general elections Reuter

Defence to bear the brunt of Bonn cuts

The search for savings could signal the end of conscription, writes Michael Lindemann

When the German cabinet troops off to the defence ministry this morning, Mr Volker Rühe, their hurly host, may not be entirely pleased to see them.

The unusual practice of holding the weekly cabinet meeting at the Hardthöhe, the sprawling ministry complex overlooking Bonn, has been designed to persuade Mr Rühe that his department has to be bled more than the other 15 if Mr Kohl is tn push through the DM70bn ($46.6bn) savings package he promised last month.

Because funds at several big spending ministries such as labour and health are tied up by legal commitments to fund Germany's social security system, the DM7bn which the ministries alone have been told tn stump up are likely to come from scrapping investments in the ministries of transport, research and technology and - most of all - the big defence budget.

Last week Mr Rühe agreed to save just over DM1bn from his DM48.2bn 1996 budget - already whittled down from DM53bn in 1991 - but analysts believe he may be asked to cut back even more to meet the DM7bn target next year.

Cuts could well affect a number of high-profile defence projects, including the Eurofighter – the four-nation fighter bomber – where savings will be particularly difficult after the decision in January to buy 180 aircraft to secure Germany's share of the work on the £32bn project.

It may, most importantly of all, ultimately see Germany's 340,000-strong army, the largest conscript army in Europe, turn professional.

"If they take more out of the [defence ministry] budget than they have already done this year, then the Eurofighter is affected, the shipyards will be hit and there will be an immediate effect on employment," said Mr Joachim Rohde, an analyst at the Stiftung Wissenschaft und Politik research institute. "I also don't know how mnch longer we are going to be able to keep up a conscript army."

To find this year's savings of DM1bn, Mr Rühe has started with the easier hits. He has, for instance, decided not to buy two new Airbus jets for the *Flugbereitschoft*, the fleet of aircraft and helicopters used to ferry Mr Kohl and his ministers around.

Mr Rühe's civil servants are also trying to work out how they can save money nn Helios, the high-profile Franco-German venture to bnild a reconnaissance satellite, a project which was finally agreed last year and is only at an early developmental stage.

> 'If they take more out of the budget than they have already done this year, then the Eurofighter is affected'

Some observers speculate that Helios, which is likely to cost around DM2bn, may be axed completely if the pressure to save is unrelenting.

Others point out that Mr Rühe is deliberately making noises about Helios because it is one of Mr Kohl's pet projects and therefore an effective way of attracting the chancellor's attention. "It's just a balloon designed to signal to Mr Kohl how fed up [Mr Rühe] is that his budget is constantly being pillaged," one defence industry executive said.

Another project likely to be hit is the Tiger attack helicopter, one of the seven Franco-German weapons projects. According to press reports, the French, who themselves are having to make unprecedented savings, have already indicated they now only want 90 helicopters – not the 215 they originally ordered.

Just how much more will have to be saved next year is a matter being haggled over hy Mr Rühe's civil servants and thair counterparts at the finance ministry before the cabinet decides in July about the size of the 1997 budget.

Analysts point out that as the pressure to save increases, more and more questions will be asked about the future of conscription.

For one thing, Mr Rühe has said time and again he wants to see 30 per cent nf the defence budget spent on investments and not the personnel costs of the conscript army. Second, France's sudden decision earlier this year to change to a professional army raises questions over the future of projects snch as the Franco-German brigade – part of the five-nation Eurocorps – if Germany does not follow suit.

"One of the reasons why Mr Rühe made so much noise about the French decision to do away with conscription earlier this year is because he knows it will now be much more difficult for him to maintain it here in Germany," says Mr Heinz Schulte, a defence analyst.

The debate about the upkeep of Germany's conscript army centres on what Mr Schulte calls "the opportunity costs of financing meals on wheels".

Becanse military service is so unpopular in Germany, a record 160,659 young Germans last year refused to sign up and instead opted for so-called civilian service, giving Germany an army of cheap labour to help run the generous social security system.

But with unemployment now rising, it is likely to make more sense, Mr Schulte says, to have the "meals on wheels" and other social services supplied hy older unemployed people. The younger ones who are doing it at the moment could then start work more quickly - and through their contributions help to finance the social security system.

Prime minister Pavln Lazarenko: said to be hig in energy sector

'Red director' to govern Ukraine

By Matthew Kaminski in Kiev

Ukrainian President Lennid Kuchma yesterday named Mr Pavlo Lazarenko, a close political ally from his home town of Dniepropetrovsk, as the country's new prime minister, in an appointment casting doubt on the president's stated pledge to shake up a government he has called inept.

A former collective farm boss without a strong economic record, Mr Lazarenko moves up from first deputy prime minister to replace the popular Mr Evhen Marchuk, sacked on Tuesday after accusing the president of pursuing his own political career rather than managing the economy properly.

The switch in prime ministers has heightened political uncertainty in Ukraine, as Mr Kuchma is trying to pass a draft constitution, stabilise the economy, and manage relations with Russia.

Reformers in parliament were dismayed by the appointment and analysts were sceptical about the new prime minister's ability to oversee Ukraine's difficult economic and political transition.

"It just means that the reason for removing Mr Marchuk was that the president wanted a safer pair of hands, not that he sought to inject greater momentum intn the refnrm process," one diplomat said.

But a presidential spokesman defended the new prime minister's record, citing strong support from regional governors. Mr Lazarenko, 43, was elected head of a collective farm at 24 and, before moving to Kiev last year, spent three years as governor of the Dniepropetrovsk region, where Soviet president Leonid Brezhnev was born and Mr Kuchma ran a nuclear missile factory.

The spokesman added that Mr Lazarenko, whose appointment does not need parliamentary approval, might yet shake up the cabinet by removing reformist ministers.

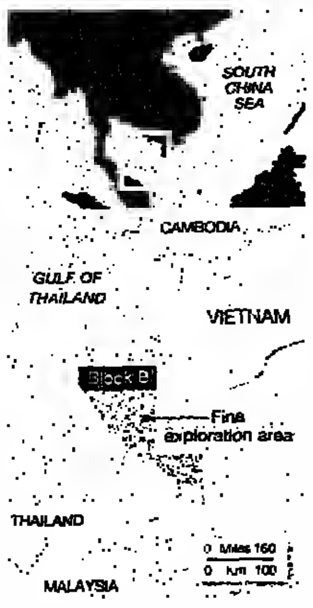
Mr Serhei Tiriokhin, a member of the Reform party in parliament, compared the new appointee to three previous prime ministers whom he referred to as "red directors". Mr Lazarenko was "very engaged in business in this country, and the two should not be mixed," he said.

As first deputy prime minister for eight months, Mr Lazarenko took a special interest in the lucrative energy sector. Many local analysts believe he controls the electricity market as well as the regional wholesale gas distributors set up earlier this year.

NEWS: WORLD TRADE

Unocal signs Vietnam oil joint venture

By Jeremy Grant in Hanoi



Unocal, the Los Angeles-based energy company, yesterday signed a three-year contract with state oil agency PetroVietnam to explore for petroleum off the southern coast of Vietnam.

Unocal has 45 per cent of the venture and will be the operator in the area, known as Block B, 480km southwest of the coastal oil hub of Vung Tau.

Repsol, the state-owned Spanish oil company, has a 30 per cent interest in the block, with Moeco Vietnam Petroleum, a unit of Mitsui Oil Exploration, holding 25 per cent. PetroVietnam has an option to buy a 15 per cent stake, reducing the others' interests.

Seismic surveys would take nine months at the prospect, an area in the Malay Basin thought to contain promising gas reserves, according to Mr John Vandermeer, president of Unocal Asia-Pacific Ventures. Drilling would start in 1997.

Mr Vandermeer said the geology of the Vietnamese block was similar to that in a gas field operated by Unocal in the Gulf of Thailand. "We expect it to contain some gas," he said. Unocal has been negotiating the contract with PetroVietnam since before the US-led trade embargo on Vietnam was removed in February 1994.

Unocal chose the block partly on the strength of seismic data gathered by Fina of Belgium in the area in 1990.

The signing reflects growing interest in the offshore oil and gas sector in Vietnam by US companies, many of which made encouraging finds off the coast of what was then South Vietnam before the Vietnam war ended in 1975. Some, including Mobil Oil, have returned to Vietnam armed with seismic data dating from that period, hoping to pick up where they left off.

Vietnam's largest producing oil field, a Russo-Vietnamese joint venture known as Viet-SovPetro, was discovered by Mobil in the 1970s.

"They [US companies] had things ticking along nicely until 1975 when they had to leave. It's been on their minds ever since," said Dr Gavin Law, Asia Pacific oil and gas analyst at Edinburgh-based consultants Wood Mackenzie.

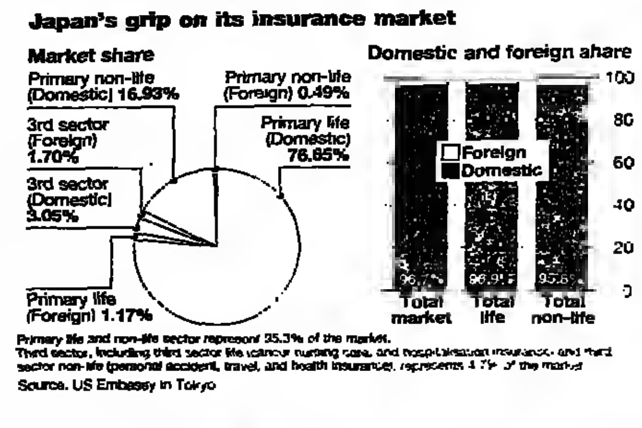
Last month, Conoco signed a contract with Vietnam to explore for oil and gas in waters disputed with China. It is also hoping to win exploration rights to Block 15-01, seen as Vietnam's most promising field, in which Mobil and Exxon are also interested.

PetroVietnam officials said that Amoco and Texaco are negotiating for other offshore blocks.

The surge in US interest comes at a time of disappointing shows by European and Asian oil companies. Earlier this month, Anglo-Dutch company Shell withdrew from exploration in an area to the east of the Unocal prospect after finding nothing of commercial value.

Japan and US try to work out insurance against trade storm

Japan's grip on its insurance market



Source: US Embassy in Tokyo

Accusations of industry-wide collusion, non-tariff barriers to market access and broken promises – the stuff of US-Japan trade friction – are once again the focus of a dispute between the two countries that is now building up to a climax.

Trade officials from the US and Japan are this week locked in negotiations in Washington in a last-minute effort to agree a deal before the June 1 deadline they have set themselves.

The argument is over Japan's huge insurance market, the second largest in the world after the US. Life assurance premium revenues amounted to Y30,489bn (£282bn) and those for non-life insurance Y9,928bn in 1994.

But, as in many past disputes, the positions of the two governments are so far apart that few are counting on an early settlement.

The confrontation follows a 1994 bilateral insurance agreement which promised to address concerns that foreign insurance companies have raised about Japan's market.

The bilateral accord, it was hoped, would be a step towards introducing greater transparency in market rules, better market access for foreign companies and gradual deregulation of stringent rules on insurance products and rates.

But a Japanese government plan to allow domestic life and non-life insurers to set up subsidiaries and take on products in each other's territories has raised charges in the US that the Ministry of Finance, which regulates the industry, is not living up to its commitment in the bilateral agreement.

As a step towards deregulating the industry, which has been strictly segregated into life and non-life markets, the ministry had planned to allow this cross-entry by targeting so-called third-sector business.

The third sector includes insurance products – such as accident, sickness and nursing care insurance – that fall between life and non-life products.

The plan was to allow life assurers to offer products previously out of bounds to them, such as vehicle, fire and casualty insurance, through subsidiaries. Likewise, non-life insurers would be able to offer such products as nursing care insurance.

The third-sector also happens to be a part of the market where foreign insurers have managed to carve out a profitable niche for themselves.

For example, in overseas travel insurance, for which demand has increased as more Japanese travel abroad, foreign insurance companies such as Cigna – a large healthcare provider in the US – have done relatively well.

The US says that under the terms of the insurance agreement, the MoF was not supposed to deregulate the third sector until the primary sector of life and non-life insurance products, dominated by Japanese companies, is significantly liberalised. The ministry also agreed to "avoid any radical change" without first allowing foreign insurance providers sufficient opportunities in the primary sector.

Products and rates for everything from fire insurance to vehicle insurance are largely fixed, making it particularly difficult for foreign companies without business ties or name recognition to compete.

The MoF has put forward some deregulation proposals for the primary sector, representing 85 per cent of the market, but there is US concern that they may not be sufficient to create new opportunities for companies that depend on third-sector business.

If Nippon Life, the world's largest life insurance company, is allowed to sell accident insurance through a subsidiary, for example, foreign companies stand little chance of competing, suggests a representative of one US insurer.

Foreign companies complain the problem is compounded by close *keiretsu* ties between insurers and their corporate customers. "We believe we are a competitive company but to what extent you can use that in Japan is questionable," says an official at a foreign insurance company.

Japanese insurance companies are the largest shareholders in the country, holding about 16 per cent of shares in value terms in 1994. The Japanese side claims that a *keiretsu* problem does not exist, but foreigners charge that holding shares in companies, providing loans and sending employees on secondment are some of the ways insurance companies cement their ties with corporate customers.

Collusive practices, meanwhile, have also had a stifling effect on competition. Industry associations have acted as a government-sanctioned agent for regulating business. The machinery pool, for example, in the non-life insurance industry was a MoF-sanctioned cartel that used to portion out machinery risks, according to one foreign company official who contends that the pool was a source of information on charges for certain risks.

The machinery pool is now being investigated by the Japan Fair Trade Commission, which chose last January – when bilateral tension over the insurance talks was high – to take action for the first time against the pool. While the investigation has sent a tremor through the industry and has led to many committees being disbanded, it has raised concerns that the practice could continue behind closed doors.

The Japanese response to US charges has been to counter that the US is trying to prevent deregulation of a sector which is expected to grow with the ageing of Japanese society. The real aim of the US is not deregulation of the primary sector but a freeze on market entry into the third sector, some domestic industry members maintain.

The two governments initially sought to diffuse the row before President Bill Clinton's visit to Japan in mid-April. But a satisfactory agreement, which eluded the negotiators then, is still seen as difficult.

There has been talk of retaliation by the US. But taking into account the history of US-Japan trade friction, it is widely predicted the deadline will be postponed or a vague agreement will be patched together to allow each side to claim victory.

Michiyo Nakamoto

The World Trade Organisation will uphold complaints by the US, Canada and the European Union that Japan unfairly taxes liquor imports, AP reports from Tokyo.

The decision will be adopted in July, the first time the WTO has made a ruling on Japan's often criticised trade practices, according to the Japan Times newspaper, citing unidentified finance ministry sources. The US and other countries have complained about the tax gap between whisky and *shochu*, a Japanese liquor. The tax on both imported and domestic whisky is 3.9 times higher than that on *shochu*.

To comply with the ruling, the finance ministry is considering raising the tax on *shochu*, instead of lowering the tax on whisky, because it does not want to lose tax revenue, the report said.

WORLD TRADE NEWS DIGEST

Koreans 'invest $10bn in China'

The LG group, South Korea's third biggest conglomerate, plans to invest $10bn in China in the next decade to make it the group's biggest overseas manufacturing base. Mr Koo Bon-moo, LG chairman, predicted sales in China would be $50bn from total estimated turnover of $360bn by 2005.

LG projects in China would include most of the group's main business activities, including electronics, oil refining, petrochemicals, construction and finance. China has emerged as the biggest investment area for Korean companies. LG has committed $650m for electronics and petrochemical plants in China. It will start producing television sets, VCRs and washing machines next year and later will manufacture telecoms equipment and semiconductors, mainly in Tianjin and Changsha.

In the oil refining sector, LG will build a plant with annual output capacity of 120,000 barrels. It will expand local production of dyestuffs, cosmetics, household consumer products and PVC resins. Mr Koo said LG would build a $300m corporate headquarters in Beijing and establish a training centre for 1,000 local employees. *John Burton, Seoul*

Mobile phones for Rajasthan

The Indian government has licensed Hexacom India, a joint venture between Shyam Cellular Infrastructure Projects, Telecommunications Consultants of India, Telesystem International Wireless Corporation of Canada and the Mauritian subsidiary of Kuwait Mobile Telecom Corporation, to provide mobile phone services in the Rajasthan and North Eastern States region.

The group intends to spend some $50m over three years to introduce GSM cellular technology to the area. The service, to cover 47m people in Rajasthan, the second biggest Indian state, is expected to start before the end of the year. India plans to improve its present density of one telephone line for every 100 people by adding 30m lines at a cost of some $20bn by the year 2000. *Alan Cane, London*

Lang backs Russia-UK ties

The recent spying dispute between Russian and Britain would not damage political and trade ties between the two countries, Mr Ian Lang, president of the UK Board of Trade, said in Moscow yesterday. Leading a British trade and investment mission, Mr Lang added: "As far as the spying matter is concerned, I regard that as closed. The fact that I am here this week underlines it is business as normal."

Bilateral trade has increased strongly since the Russian economy was liberalised, to reach almost $5bn last year, Russian statistics show. Britain accounts for only 3 per cent of foreign direct investment in Russia. Mr Lang, who yesterday signed a science and technology agreement with his Russian counterpart, said the Russian market offered "huge potential" for British companies irrespective of who won next month's presidential elections. *John Thornhill, Moscow*

■ PanCanadian Petroleum, with a British and a Korean partner, will spend $17m over five years exploring 5,000 sq km of Libya's Sirte Basin. PanCanadian retains a 75 per cent working interest and is the operator. The first wells will be drilled in 1997 and 1998. *Robert Gibbens, Montreal*

■ PDS Systems International of the UK, in tandem with Malaysian associates Industronics Berhad, has secured a letter of intent to supply 550 intelligent monitors for the new Kuala Lumpur international airport. *Foreign Staff, London*

NEWS: THE AMERICAS

US seeks more European defence partners

By Bernard Gray in London

The Peutagon has launched an initiative to expand transatlantic defence industry co-operation, in an effort to head off criticism that the US defence market is closed to European companies.

Dr Paul Kaminski, the US under-secretary for defence acquisition, has sent to European defence ministries a list of more than 20 Pentagon programmes which the US is prepared to open to international partners.

No formal response has been received by the Pentagon to the offer, which was sent to Britain, France, Germany and Italy in April. However, Mr James Arbuthnot, the UK defence procurement minister, will discuss access to the US market, and Dr Kaminski's proposed projects, in a visit to Washington this week.

The list includes co-operation on developing new command and control computer systems and satellites to produce a "digital battlefield" with troops and commanders on a single computer network.

There is also the offer of co-operation on several missile programmes, including a cruise missile to be launched from aircraft, similar to one which the British MoD is buying, and on a new medium-range air combat missile, which Britain, Germany Italy and Spain will need to arm the Eurofighter. Programmes such as upgrading the F-16 fighter and E-2C radar early warning aircraft are also on the table, as is a competition to supply the US Marines and army with 155mm howitzers.

The offer of increased co-operation comes as European criticism about unequal access to defence markets is mounting.

The US defence equipment market is twice the size of that in western Europe, yet US exports to Europe are at least double that of European sales into America. France in particular has advocated a "European preference" in arms acquisition to respond to US "buy American" legislation.

Britain has come under pressure for its recent decisions to buy Lockheed C-130J transport aircraft and McDonnell Douglas Apache attack helicopters rather than European alternatives. In Washingtoo earlier this year Mr Michael Portillo, the UK defence secretary, said that the UK would not be able to resist pressures from Europe if there was not a "two-way street" in defence goods across the Atlantic.

It is partly to head off the threat of restricted access to European markets that the Pentagon has launched its initiative. The suggested list is not intended to be exclusive, and Dr Kaminski has asked European ministries to submit their own collaborative ideas.

Cardoso ally resigns to run for mayor

By Angus Foster in São Paulo

Mr José Serra, Brazil's planning minister and one of the country's leading politicians, has resigned to run for mayor of São Paulo in October's elections.

Mr Serra, a close ally of President Fernando Henrique Cardoso and member of the president's Social Democrat party (PSDB), was persuaded to run after the party failed to provide a strong alternative candidate. São Paulo, the biggest city in South America, is one of the most important executive posts in Brazil and the new mayor could play an important role in the 1998 presidential elections.

Mr Serra has been mulling whether to run for several months. He is already an elected senator for the state of São Paulo and is seen as a strong candidate for mayor. However, he wanted to be free to contest the presidency if Mr Cardoso was not a candidate.

Mr Cardoso is expected next year to try to change the constitution to allow him to stand for re-election. If Mr Serra is elected mayor, he would no longer present a threat to Mr Cardoso's re-election plans.

Mr Cardoso, who is on an official visit to France, said Mr Serra was "an excellent candidate" for mayor and denied that the government's ruling coalition would be damaged by events in São Paulo. The PSDB and its main ally, the Liberal Front (PFL), failed to agree on a common candidate for the city, leading to a split between the two parties. "The PFL in São Paulo doesn't have anything to do with the PFL on a national level," Mr Cardoso claimed.

Mr Serra's replacement is expected to be Mr Antônio Kandir, a PSDB deputy for the state of São Paulo and a former junior member of the government of ex-president Fernando Collor. Mr Kandir, a tax specialist, has far less political authority than Mr Serra, who often battled with Mr Pedro Malan, the finance minister, for influence over government policy.

Mr Serra's resignation also robs the government of one of its few respected voices in Congress, where Mr Cardoso's ruling coalition has lost several key votes in recent months.

Mr Serra was immediately installed as favourite to win the mayorship, although the race is expected to be close. His main challengers are Ms Luiza Erundina, a former mayor and the candidate of the leftwing Workers Party (PT), and the populist former mayor of Osasco, Mr Francisco Rossi. Mr Paulo Maluf, São Paulo's incumbent mayor, last week persuaded the PFL to back his chosen candidate, Mr Celso Pitta, and triggered the split with the PSDB.

Cigarette group sets hopes on Chattanooga puff-puff

By Richard Tomkins in New York

The Tennessee city of Chattanooga, famous for the choo-choo of the 1940s hit song, will have the opportunity to experience another kind of puff-puff next week: a cigarette that hardly smokes.

R.J. Reynolds Tobacco, the cigarette-making subsidiary of RJR Nabisco, the US tobacco and food group, yesterday announced that it had chosen Chattanooga as the test market for its new low-smoke cigarette called Eclipse.

The choice, it said, was easily explained. "It's just a typical, medium-sized city with a representative population of smokers who are under pressure because they smoke."

Eclipse, which works by heating instead of burning tobacco, produces nearly 90 per cent less second-hand smoke than other cigarettes. R.J. Reynolds is promoting it as a socially acceptable alternative to the conventional product.

R.J. Reynolds is not claiming Eclipse is "safe." In fact, it contains at least as much tar and nicotine as many ultra light cigarettes already on the market. But it says it is "low in tar and nicotine, with a smooth, rich tobacco taste."

From next Monday, R.J. Reynolds will start advertising Eclipse in Chattanooga and selling it in local stores. It will be available in four king-size styles – full favour, menthol full flavour, milds and menthol milds.

The full flavour versions yield 3mg of tar and 0.2mg of nicotine, while the mild versions yield 2mg of tar and 0.1mg of nicotine.

R.J. Reynolds has already tested the product among thousands of smokers in focus groups. But one hurdle the product will have to overcome in the open market is its retail price, which is about 10 cents a pack above the price of ordinary cigarettes because of its higher manufacturing cost.

At its lit end, Eclipse has a small carbon tip that burns and sends warm air through the tobacco. The heated air releases a tobacco vapour which quickly dissipates after being exhaled, reducing the smell.

The product looks like an ordinary cigarette, but it gives off little smoke from its lit end, does not burn down, and does not produce ash. After six or seven minutes it goes out by itself.

Eclipse is R.J. Reynolds's second attempt at evolving a smokeless cigarette. In 1988 its Premier cigarette became one of the biggest new product flops in US corporate history. Smokers complained that it tasted odd and was too hard to smoke.

Surinam president rejects offer

By Canute James in Kingston

Surinam's President Ronald Venetiaan has rejected an offer from the country's former military dictator to form a coalition government following inconclusive general elections last week. Mr Venetiaan is instead negotiating with smaller parties to widen his coalition and obtain the two-thirds majority he needs in the national assembly to form a new government.

Following the rejection by Mr Venetiaan of the offer from Mr Desi Bouterse, who staged two coups against civilian governments, officials in the former Dutch colony said the former military leader would be prosecuted in connection with the murders in 1982 of 15 critics of the military junta.

Mr Bouterse's offer to join a coalition government followed his National Democratic Party's failure to win a majority in the elections, taking 16 of the 51 assembly seats, according to preliminary results. The New Front Coalition of Mr Venetiaan took 24 seats, with others shared by smaller parties.

Mr Bouterse's first coup was in 1980 after which he ran Surinam for seven years, and the second in 1990, leading to 11 months of military rule. He retired from the army three years ago. "We could not move against him before for the 1982 events because the army until recently had the real power while the civilian administration had constitutional office," a government official said on Monday.

Mr Bouterse's offer to join a coalition government followed by one day his denunciation of the elections, saying they were fraudulent and should be declared null and void. However, Mr Richene Libretto, director of the independent electoral office, said a few electoral incidents did not influence the outcome of the elections in the country of 450,000 people.

Mr Bouterse's failure to win office has been welcomed by the Netherlands, and has eased concerns in neighbouring French Guiana. Mr Wim Kok, prime minister of the Netherlands, said in the Hague that Surinamese had shown "common sense" in the elections to ensure that they have a government "that can do good things for Surinam". The Netherlands had cut vital aid to Surinam during Mr Bouterse's dictatorship.

Officials in French Guiana said they had feared an influx of migrants from Surinam if the former dictator had won. More than 15,000 refugees from Surinam moved into French Guiana during the junta's rule.

AMERICAN NEWS DIGEST

US court rejects Honda appeal

One week after throwing out one award for punitive damages, the US Supreme Court yesterday upheld another larger judgment, also involving a foreign car manufacturer. It rejected an appeal by Honda of Japan against a total of $5.735m in damages due to an Oregon man badly injured when his all-terrain vehicle overturned. He suffered skull and facial fractures, leading to permanent disfigurement, and brain damage, for which he was awarded $735,000 in compensation plus $5m in punitive damages.

Last week, in a ruling welcomed by the manufacturing sector, the highest bench ruled as "grossly excessive" a $2m judgment in favour of a doctor in Alabama who had successfully sued BMW of Germany in state court after discovering that his imported sedan had been partly repainted to repair damage prior to delivery. This is the second time the Oregon case has appeared before the court. Last year, in a victory for manufacturers, it struck down a state law preventing judges from lowering jury damages awards considered excessive. The suit was sent back to the Oregon supreme court, which upheld the jury's judgment.

On this occasion the court simply rejected, without comment, Honda's arguments that the size of the damages bore no relation to the injured man's pain and suffering and violated the company's constitutional rights to due process. In the BMW case, it found the company's rights had been jeopardised. *Jurek Martin, Washington*

Consumer confidence falls

The US consumer confidence index fell to 101.2 in May from a revised reading of 104.8 in April, the Conference Board said yesterday. "Despite recent statistics suggesting economic activity has become a bit more lively in recent months, our latest survey shows no shift in consumer attitudes," said Mr Edgar Fiedler, vice president and economic counsellor at the Board. "As it has for more than a year, the index points towards moderate economic growth and moderate spending," Mr Fiedler added. The Conference Board said consumers were "not as optimistic" about the next six months as they were last month. A larger proportion of consumers expect business conditions to worsen. The expectations component of the index fell to 89.7 from a revised 95.9 in April, and the present situation component rose to 118.3 versus a reading of 118.2 in April. *Reuter, New York*

Samper's position debated

Colombia's congress was set to open debate yesterday on whether President Ernesto Samper should face impeachment on drug corruption charges. The debate will mark the first time in the country's history that a sitting president will have his fate decided by congress. Just before the debate began, a group holding the brother of former President Cesar Gaviria threatened to kill him if congress clears Mr Samper of the corruption charges. The 165-member House, dominated 93-72 by members of Mr Samper's Liberal party, has until June 20 to vote on a resolution approved last week by a special congressional investigating committee, which recommended that Mr Samper be cleared of charges that he approved the receipt of millions of dollars in Cali cartel drug money to support his 1994 election campaign. *Reuter, Bogotá*

World Bank economist named

Mr Guillermo Perry, Colombia's former finance minister, announced he had accepted "in principle" an offer from the World Bank to become its chief economist for Latin America. Mr Perry would replace Chilean economist Mr Sebastian Edwards. *Reuter, Bogotá*

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Peres maintains a slim lead over Netanyahu

Shimon Peres: favours land for peace approach

By Julian Ozanne in Jerusalem

ISRAELI ELECTIONS May 29

Mr Shimon Peres, the Israeli prime minister, maintained a wafer-thin lead over his rightwing challenger, Mr Benjamin Netanyahu, on the eve of elections today that will determine the future of Middle East peace-making into the next century.

Two opinion polls published yesterday, the final day of campaigning, showed Mr Peres leading Mr Netanyahu in the separate ballot for the premiership by three percentage points.

More important, both surveys, conducted by separate polling organisations, showed all Israelis had made up their minds about who to vote for in today's elections. For the first time since the campaign began in early May, both polls showed zero per cent of undecided voters.

The elections, closely watched by Arab states and international investors, will decide whether or not Israel continues its peace process with Arab partners which has delivered new trade and investment flows. Mr Peres and his governing Labour party campaigned on a platform of continuing to exchange Israeli occupied land for peace with Arab neighbours. Mr Netanyahu and his Likud-led rightwing opposition bloc reject territorial compromise and would effectively freeze the peace process with the Palestinians.

In the race for Israel's 120-member parliament, yesterday's polls showed that both the main parties would lose seats to small special interest parties based on religion, ethnicity or single issues. Both Labour and the leftwing secular Meretz party, the two stalwarts of the current coalition, would suffer a reduction in their representation, winning 49 seats compared with 56 seats in the 1992 elections.

But if the polls are correct and Mr Peres wins the premiership, the "peace camp" would have a solid 56-57 seats with Arab parties and would be able to form a coalition of over 61 with Mr Natan Sharansky, whose Russian immigrant party is projected to win six seats.

As the kingmaker of a Labour-led coalition, Mr Sharansky would seek to restrain Mr Peres' peacemaking. He is against territorial concessions to Syria on the Golan Heights unless the regime democratises and he opposes emergence of a Palestinian state. But Mr Sharansky's views on peace will be moderated by his desire to strike a coalition accord which gives his constituency, the new immigrants, the maximum economic and social benefits.

For Mr Peres a coalition embracing Arabs, Meretz and Mr Sharansky will free him from making difficult deals with ultra-orthodox parties which frustrated his predecessor, former prime minister Yitzhak Rabin, in 1992 and 1993. And such a coalition would also send Israel further towards secularism as both the Arabs and the Russians are firmly opposed to coercive religious laws and favour separation of religion and state.

Israel decides its future, Page 13

Benjamin Netanyahu: election would freeze peace process

Poll serves as referendum on Labour leader's peace vision

The career of Israeli prime minister Shimon Peres so spans the life of the state of Israel that it is almost impossible to separate the two.

Present at the state's foundation in 1948, it was he who armed it against Arab neighbours in the following 25 years. After that he held all Israel's great offices, before forging the strategy for Israeli-Arab peace which is the subject of today's general elections.

The real question is whether Israelis trust Mr Peres with their security. In this respect, the election, in which Israelis will for the first time vote separately for prime minister and for the Knesset (parliament), is more of a referendum, in which the question would be: "Do you think Mr Peres' vision of peace, of Israel co-operating with its Arab neighbours to create a prosperous Middle East, can safeguard Israel's security as a nation?"

Israelis have long been sceptical of Mr Peres' visions but the latest opinion polls give him a small victory margin well within the range of error. The Labour leader has never won a general election outright. In 1977, 1981 and 1988 he lost to the rightwing nationalist Likud which he confronts again today. He was prime minister in 1984-86 because there was no clear electoral outcome, and Labour and Likud rotated the leadership of a fragile National Unity government.

The current Labour-led coalition, moreover, won office in 1992 after the party ditched Mr Peres for the late Mr Yitzhak Rabin, Mr Peres's long-time rival. He was serving as foreign minister until a Jewish fanatic opposed to the peace moves murdered Mr Rabin last November.

Mr Peres, at 72, was pushed once more to the helm. He is determined to stay there, and carry through his peace strategy, a vision allied to steely pragmatism.

According to his recent memoirs, Battling for Peace, he was widely regarded as a pragmatist in his youth. Indeed, at the height of their enmity, Mr Rabin described him as "an indefatigable schemer". The memoirs reveal him as an earnest young man, even a bit of a prig, burling to the ground his parents' radio when they used it on the sabbath.

An early protégé of David Ben-Gurion, Israel's founding father, between the 1948 and 1967 wars, Mr Peres was Israel's chief arms procurer, getting, by stealth and secret diplomacy, the weapons for Israel's defence. It is this former defence minister, now accused by Mr Benjamin Netanyahu, the Likud challenger, of being soft on security, who obtained the French reactor technology which started Israel on the ladder to its estimated stockpile of 200 nuclear bombs.

Mr Peres was a popular prime minister in the mid-1980s, withdrawing Israeli forces from Lebanon after the disastrous 1982-85 invasion, and giving the central bank its head with a risky shock plan which defeated hyperinflation. But Israelis did not trust him to make peace in the way they trusted Mr Rabin, the bluff, celebrated soldier, impatient with political intrigue.

Only under Mr Rabin could Mr Peres explore how far he could get with peace, sealing a holding agreement on self-government with the Palestinians, securing peace with Jordan, and starting now stalled land-for-peace negotiations with Syria.

His enthusiasm and intellectual excitement seemed boundless, packed into his trademark aphorisms.

"In the future, the only generals in the Middle East will be General Motors and General Electric," he told one reporter. But the peace process was advancing, and Israel was breaking out of its isolation and opening new markets to its companies. Since 1992, diplomatic recognition of Israel has doubled from 85 to 161 countries, exports have nearly doubled, and foreign investment in Israel has multiplied nearly 30 times to $2bn last year.

As Mr Rabin's successor, however, Mr Peres had to be perceived as uncompromising on security. Like Mr Rabin, he assumed the defence portfolio as well. Then in January, Yahia Ayyash, master bomb-maker of Hamas, the Palestinian Islamist group, was assassinated by Israeli security. Hamas struck back with four suicide bombs in February and March, killing 59 Israelis and wiping out Mr Peres' 15-points lead over Mr Netanyahu, who had been seen as acquiescent in the climate of hate surrounding the Rabin killing.

Mr Peres blockaded the Palestinian territories. Then, after Hizbollah, the Shia Moslem fundamentalist guerrillas fighting Israeli occupation of southern Lebanon, stepped up their attacks, Mr Peres in April launched a 17-day air, artillery and naval bombardment of Lebanon, killing about 200 civilians.

> 'I have no doubt whatsoever that had I not launched an all-out war on terror, I would lose the elections'

Throughout the Arab world, this was seen as cynical electioneering, and frustration at being unable to dismantle Hamas. Mr Peres said yesterday: "I have no doubt whatsoever that had I not launched an all-out war on terror, I would lose the elections."

He has said throughout the campaign that he has a mission, and an expertise to "deal with an enemy until he becomes a partner". But the "pragmatism" of the blockade and the bombardments has not - according to the polls - fully restored Israeli faith in the Peres peace vision to where it was before Hamas struck. The polling booths today will reveal whether Mr Peres has got the mix right.

David Gardner

Israel goes to the polls

The main parties

Peres

Labour party
Led by Prime Minister Shimon Peres, it stands for continuation of the peace process. It would negotiate a permanent solution with the Palestinians including the possibility of a Palestinian state, would search for peace with Syria and Lebanon making territorial concessions on the Golan Heights in return for secure borders. It has promised faster privatisation, an assault on the public sector and budget cuts to reduce inflation to 4 per cent by 2000. It wants an increased education budget and equal citizenship for Israeli Arabs.

Netanyahu

Likud-Gesher-Tsomet bloc
Led by Benjamin Netanyahu, it opposes the continuation of the current peace process with the Palestinians. It is against a separate Palestinian state and promises to send more Israeli troops into the West Bank. It would resuscitate the construction of Jewish settlements in Palestinian territories. It opposes any territorial concessions to Syria and demands the Golan Heights remain under Israeli sovereignty. It favours free market economic policies, faster privatisation and reduction of the tax burden.

The potential coalition partners

Sharansky

Yisrael Ba-Aliya
Led by Natan Sharansky, it recognises Palestinian autonomy but opposes a separate Palestinian state. It has very liberal free market economic policies but promises increased welfare and opportunities for new Russian immigrants.

Deri

Religious parties
Three parties including Shas led by Arye Deri. Their views on giving up the biblical land of Israel for peace range from extremely hawkish to moderate. All want some degree of unity between state and religion and increased spending on Jewish education.

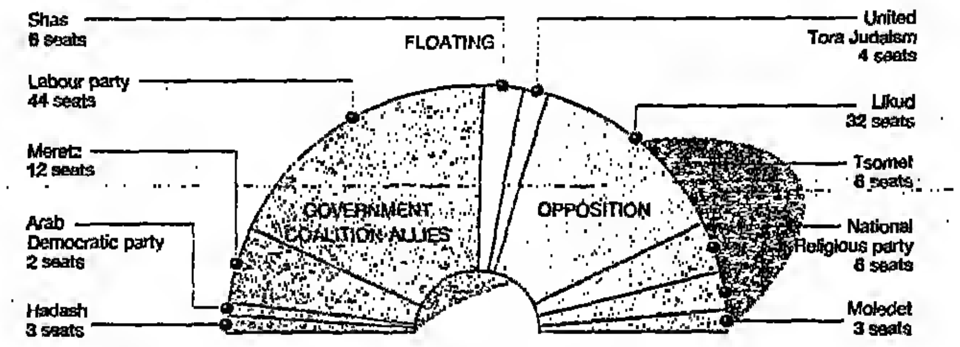
Sand

Meretz
Led by Yossi Sand, it backs Labour's peace process but favours a separate Palestinian state. As the party of civil rights it favours equal opportunities in the work place and a free market economy with a strong welfare element.

Darawshe

The Arab Parties
The two Arab parties, including veteran parliamentarian Abdul Darawshe, back comprehensive peace including a separate Palestinian state with Jerusalem as its capital and stress equal rights for Israel's one million Arab citizens.

Parliament: the outgoing Knesset



Peres resigned to loss of ultra-orthodox Jewish vote

When a white-haired rabbi more than 100 years old urged ultra-orthodox voters earlier this week to back Mr Benjamin Netanyahu, rightwing opposition candidate for prime minister, there was a huge sigh of despair in the electoral headquarters of Mr Shimon Peres, Israel's prime minister.

Mr Peres, in a neck-and-neck race with Mr Netanyahu, had hoped Israel's most influential rabbis would at least keep their preferences to themselves, leaving him a chance of capturing at least some floating ultra-orthodox votes.

But overt or covert endorsement of Mr Netanyahu by rabbis such as Eliezer Schach, revered by ultra-religious Jews who generally follow rabbinical instructions, may have harmed Mr Peres' bid for the premiership. In the long term, however, it may backfire by further eroding the power of the ultra-orthodox community to impose its agenda on Israel's secular majority.

For the first time, Israel will today cast two separate ballots - one for the prime minister and one for parliament - forcing the ultra-orthodox to vote for one of two secular candidates. The new electoral system also makes them take a formal stance on the Middle East peace process, which they had previously shied away from, by choosing between the two different peace policies of the candidates.

If Mr Netanyahu is defeated, as current polls suggest, the ultra-orthodox community might find itself more closely associated with Israel's right wing and more politically isolated in face of an increasingly secular leftwing government.

The small but powerful community, estimated at about 10 per cent of Israel's 4.6m Jewish population, has traditionally voted for their own parliamentary parties which focused on a narrow religious agenda and left the peace issue to the consciences of their political leaders.

Rabbinical endorsements instantly translated into tens of thousands of votes and coalition bargaining made the small ultra-orthodox parties kingmakers in Israel's fragmented multi-party system.

> If Netanyahu is defeated, the *haredi* community might find itself more closely associated with the right wing and more isolated before a secular leftwing government

But this time, the power of the ultra-orthodox vote will be felt most in the prime ministerial result rather than in post-election horse-trading.

Most of the rapidly-growing *haredi* – or God-fearing – ultra-orthodox community oppose giving back land to Arabs that they believe is part of the biblical land of Israel. Their determination to fortify the country as an observant religious state with coercive Jewish laws often provokes bitter resentment.

Up to 250,000 ultra-orthodox Jews will cast ballots today. Mr Peres and Mr Netanyahu have scrambled to cut deals with various religious sects to win their votes. They brushed up their Torah knowledge in an attempt to earn rabbinical blessings. Weeks ago they donned skullcaps for a rare joint appearance, their clean-shaven faces and snappy business suits standing out in a room full of men in long black coats, beards and sidelocks.

In forums like this, they made campaign promises on issues critical to the *haredim*, such as funding for religious institutions; bans on civil marriage; and the closure of certain streets to traffic on Saturdays, the Jewish sabbath.

However, it became clear as the campaign unfolded that ultra-orthodox voters were solidly behind Mr Netanyahu, and Mr Peres' attempt to woo them or their spiritual leaders had failed. Pollsters estimate that as much as 90 per cent of *haredi* voters might cast their ballots for Mr Netanyahu.

Mr Peres' only hope of capturing more *haredi* votes rested with an endorsement from Rabbi Ovadia Yosef, the relatively dovish spiritual mentor of the Shas party. But Rabbi Yosef has kept silent, fearing his instruction to vote for Mr Peres might have been ignored by his community. He also wanted to leave all his options open to negotiate a coalition with whichever candidate won the premiership.

However, the post-election power of the ultra-orthodox is likely to be considerably reduced. First, the new system has spawned new parties capable of winning enough seats to compete as kingmakers of the next government. The Arab parties and the new Russian immigrants are likely to emerge tomorrow morning with at least as much potential power as the ultra-orthodox.

Polls for the parliamentary ballot indicate Mr Peres could form a majority coalition of more than 61 without the ultra-orthodox parties in a move which will tilt Israel further towards secular reform.

A possibility is a Labour-led coalition with Meretz, an ultra-secular leftwing party, the Arab parties and Mr Natan Sharansky's new immigrant party, which represents the Russian community.

Although Labour wants to maintain the religious/secular *status quo*, both the Arab parties and Meretz are in favour of abolishing religious laws and separating state and religion.

Mr Sharansky also backs reform of coercive Jewish laws and favours civil marriage to accommodate the thousands of Russian immigrants not considered Jews by the state.

If Mr Peres wins, he may shrug off the rightwing tendencies of ultra-orthodox voters and still seek to accommodate them. But it will be hard for him to argue the case with his secular allies who solidly backed his bid for the premiership and for Middle East peace.

Julian Ozanne and Avi Machlis

Aid agencies see growing gap between food needs and supplies

By Frances Williams in Geneva

The next few years will see greater numbers of displaced people, tighter relief budgets and a growing gap between food aid needs and supplies, according to the latest annual report on world disasters from the International Federation of Red Cross and Red Crescent Societies.*

The Geneva-based Federation, which groups 169 national Red Cross societies, says aid agencies will have to boost their efficiency and professionalism to handle growing workloads with scarcer resources.

Three main trends dominate the humanitarian scene in the 1990s, the report suggests:

■ "Exponential" growth in the numbers of people displaced within their own countries. On present trends, there could be 40m internally displaced people by 2000, compared with 22m in 1990 and 26m in 1994. This is in addition to nearly 15m current refugees who have fled across international borders.

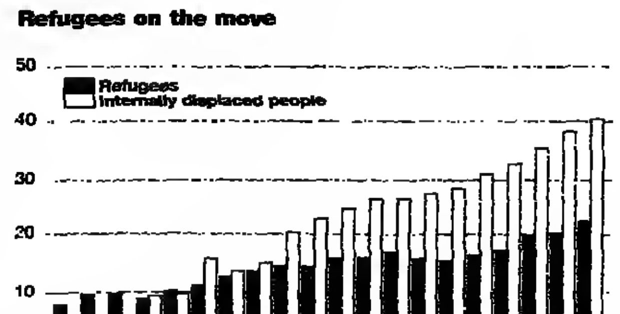
■ A growing gap between food-aid supplies and demand, which on a worst-case scenario could reach 37.7m tons by 2005, according to a recent study by the US agriculture department. Food-aid donations are expected to rise from about 9.2m tons in 1996 to 10.6m tons in 2005, while humanitarian food needs could increase by 5-14m tons over the same period.

■ The surge in funding for disaster relief, which more than trebled to nearly $3.5bn between 1990 and 1994. As a proportion of total development assistance, which stagnated, disaster relief rose from 2 per cent to 6 per cent. But, says Mr George Weber, the federation's secretary general, "it has become clear that the boom in humanitarian assistance unleashed by the ending of the cold war has peaked and is receding".

The federation, the world's largest humanitarian network, says this underlines the need for better monitoring of how aid money is spent and for agreed standards of aid and protection for disaster victims.

**World Disasters Report 1996, published by Oxford University Press, fax +44 1536 454518, £15.99 ($29.95).*

Refugees on the move



Source: World Disasters Report 1996

Draft treaty outlaws all nuclear explosions

By Frances Williams

Negotiations on a comprehensive test ban treaty, due to conclude on June 28, took an important step forward yesterday with the presentation of a complete draft text by the chairman of the United Nations-sponsored talks.

Mr Jaap Ramaker, a Dutch diplomat, told reporters he hoped the draft would provide the basis for the final treaty. "It is not the final answer, but I hope it is as close as possible to the final answer," he said, adding that there would inevitably be tough negotiations at the end.

The proposed treaty would outlaw "any nuclear test explosion or any other nuclear explosion", however small, without exception. It thus makes no concession to China's demand for the right to conduct "peaceful" nuclear tests, which is strongly opposed by other countries.

The move effectively isolates China, the only one of the five nuclear weapons states still testing nuclear weapons, obliging Beijing to withdraw its demand or face responsibility for the collapse of the talks.

Chinese officials recently indicated some "flexibility" on peaceful nuclear explosions in return for compromises by others. But Beijing has not yet signalled its readiness to abandon the idea altogether.

India, too, is now in an exposed position. Its call for the treaty to require total nuclear disarmament within a fixed time, strongly opposed by the nuclear powers, has not found its way into the draft.

A number of countries will be unhappy about Mr Ramaker's proposal which would allow on-site inspections to be agreed by a simple majority of the executive committee. It would also allow technical information from sources other than the agreed international monitoring system to be used as the basis for a request.

His plan to make the treaty conditional on ratification by all 37 countries with nuclear test monitoring stations – including the three nuclear threshold states of India, Pakistan and Israel – will also raise fears that it could be held hostage by a single country.

The 38-member UN disarmament conference is aiming to produce a treaty by the end of June to be ready for signing at the UN General Assembly in September.

Calling Dick Tracy... your time has come

By Paul Taylor

Fact is once again catching up with fiction. Sixty years ago detective Dick Tracy made his cartoon debut sporting a wristwatch telephone - a revolutionary concept at the time.

Yesterday Texas Instruments, the US-based electronics group, announced another important step in the advance of semiconductor technology which will enable devices such as Dick Tracy's wristphone to be manufactured quickly, cheaply and in bulk.

TI claimed it could now pack 125m transistors on to a single silicon chip the size of a thumbnail. The company has achieved this latest breakthrough in micro-miniaturisation by reducing the size of the electrical connections between individual transistors to just 0.18 microns in width - 600 times smaller than the diameter of a human hair.

The ability to squeeze so many transistors on to a single chip could have profound repercussions in the consumer electronics, computer and telecommunications industries.

"Today's most complex chips range from five to seven million transistors," said Mr Rich Templeton, TI's senior vice president in charge of the semiconductor group. "This dramatic increase in transistor count will create systems and applications that we haven't even started to imagine. I think it will revolutionise the electronics industry."

Most electronic systems such as televisions, telephones or computers are currently manufactured using many semiconductor chips wired together on printed circuit boards. However, when digital information passes from one microchip to another it is slowed down, creates heat and electrical "noise".

But with the new technology, it should be possible to integrate most if not all chips on a printed circuit board on a single silicon chip that will be faster, quieter and smaller and will use less power.

For the consumer, the technology will herald cellular telephones and mobile computers with much longer battery lives and which will be lighter and more powerful. It should also speed the trend towards building "computer intelligence" into ordinary "dumb" devices such as vending machines and central heating systems.

Internet servers - the computers which handle requests for information from across the Internet - should become significantly less expensive and more efficient. One modem board will be able to replace 100 in current machines and a tenfold improvement in performance will allow much higher data transfer rates.

In such applications as engineering, computer aided design and manufacturing workstations or telecom switches where performance is critical, the capacity of chips using the new technology will mean faster devices, lower cost telephone systems and the ability to move the huge quantities of data required by videoconferencing, multimedia communications and other network applications.

There are also many tasks such as image recognition which require vast computing power and are normally only found in expensive robot manufacturing systems. However, with 125m transistors on a chip, picturephones and computers that recognise speech and make intelligent decisions based on the context of the speech could move within the consumer price range.

Other applications could include automated teller machines that would recognise the customer's face or do fingerprint recognition.

Within manufacturing industry, TI believes its new technology could cut product development cycles dramatically. "With today's average equipment product life cycle of say a laptop computer, extending six months, a 30-day delay in introducing a new product can mean failure. It is critical to move through the design cycle quickly," said Mr Templeton.

To create the tightest, most elegant electronics design may take a year or more, but using TI's technology engineers will be able to "drop" large quantities of existing circuitry into a design rather than designing it all from scratch. Overall Mr Templeton believes the much higher level of integration possible using TI's new technology will enable "new levels of multimedia inter-operability and wireless connectivity far beyond the reach of current technologies." Dick Tracy, your time has come.

NEWS: INTERNATIONAL

Rate rises stoke S African unions' anger

By Roger Matthews in Johannesburg

The deepening public rift between business and unions in South Africa is causing increasing concern to the country's political leaders.

The National party, which leaves the government of national unity at the end of next month, said yesterday it was shocked by the "bullying tactics" adopted by the largest union federation, which it said was "seriously undermining investor confidence".

This followed calls by Mr Sam Shilowa, secretary general of the Congress of South African Trade Unions (Cosatu), for protest marches and a one-week boycott of the main commercial banks for raising interest rates by 1 percentage point earlier this month, the second such rise in three weeks.

"Not only have they committed a crime, but they are making it impossible for workers and the poor to afford housing," he said. "Companies that rely on overdrafts may be forced to lay off workers. This is tantamount to privatisation of monetary policy."

Mr Shilowa said he was also considering a formal complaint to the police over the banks' action, and warned that the unions would adjust their pay claims as a result of the rate rise. The Competition Board is already looking into possible collusion between the banks, which unilaterally raised their rates without any prior action by the Reserve Bank.

The unions also threatened to withdraw pension funds from Old Mutual, the country's biggest life assurer, as it was using union money to promote rightwing causes through its membership of the South Africa Foundation, which groups the country's 50 biggest companies. An economic policy document issued earlier this year by the foundation was described by Mr Shilowa as "a frontal assault on the rights of labour".

Mr Tito Mboweni, labour minister, who described the South Africa Foundation document as absurd, last week appealed to both sides to moderate their language. "That both sides have chosen to make their views known in the most strident and aggressive terms imaginable has not helped us to arrive at a resolution of contending viewpoints," he said.

The minister was concerned that unions were delaying implementation of the Labour Relations Act, the most important legislation passed last year. Arguments that had been resolved during negotiations were breaking out again, and he warned the government might be forced into unilateral decisions. "If forced to, it may become unavoidable, for we are charged with the responsibility to govern this country in the interests of all the people," he said.

Long journey from barricades to boardroom

Cyril Ramaphosa's passage from unions to business is a metaphor for S Africa's political change

Cyril Ramaphosa is determined that South Africa under President Nelson Mandela should not make the same mistake as Ghana under its former president Kwame Nkrumah.

"We should not over-concentrate on the political kingdom," said Mr Ramaphosa, once the voice of South Africa's powerful trade union movement, now hoping to demonstrate the merits of "capitalism with a human face".

The African National Congress (ANC) would not limit its most talented members to the political arena, he emphasised in an interview in London last week.

"We intend to deploy people in the economic field and in business, because that has been left unattended to."

Mr Ramaphosa, 44, born in Soweto, and about to take up the job as deputy chairman of one of South Africa's biggest black-controlled companies, has made a remarkable journey from the barricades to the boardroom.

Twice detained during the apartheid era, and a key player in South Africa's transition to democracy, he seems as much at home on the shop floor as he is pressing the flesh and exchanging cards with the scores of bankers and directors who queued up to meet him at a reception in his honour at the *South African High Commission* last week.

At an uncertain time – the fall in the rand, a new finance minister, the withdrawal of former president F.W. de Klerk from the government of national unity – Mr Ramaphosa sought to offer reassurance, both in his question and answer session at the High Commission, and in an interview at the Financial Times.

Hence his reference to the dictum which the first leader of independent Ghana made famous: "Seek ye first the political kingdom and all else will follow."

It proved disastrous: an economy which had a per capita income at independence in 1955 equal to South Korea's became dominated by the state, and has yet to recover.

Some 40 years later, Africa's biggest economy has to come to grips with privatisation, competition policy and the globalisation of the world economy, and Mr Ramaphosa will be a key player in the process.

In July he steps down as secretary general of the ANC but will remain on the party's national executive.

"I am making the shift from the business of politics to the politics of business," he said.

The passage of Cyril Ramaphosa from trade unionist to politician, and now businessman, is an apt metaphor for the rapid political change South Africa has seen over the past decade.

In the 1980s the priority was to force political change through mass mobilisation. As head of the National Union of Mineworkers, Mr Ramaphosa was the country's most powerful trade unionist.

In the 1990s, as the country switched to constitutional politics, Mr Ramaphosa again led the way as chief drafter of the country's new constitution.

Now, with the ANC under pressure to deliver the economic fruits of political victory, Mr Ramaphosa is going into business.

At the beginning of July, he joins New Africa Investments *Limited (Nail)*, the country's leading black business consortium, headed by Dr Nthato Motlana, physician to President Mandela.

The timing of Mr Ramaphosa's move can be traced to the sale by Anglo American, South Africa's largest company, of its 48 per cent stake in Johnnic, an industrial holding company, and JCI, a mining group. Nail is widely expected to play a leading role in a bid by black business and investors for Anglo's stake in Johnnic, which is worth close to R5bn ($1.1bn).

One of the sensitive elements in such an outcome is the fate of Omni Media, in which Johnnic is the controlling shareholder, and which owns three of South Africa's most influential papers – the Sunday Times, Financial Mail and Business Day.

Mr Ramaphosa is confident the deal will be done, and Nail believes Johnnic has the potential to serve as a platform to further significantly the cause of black empowerment. As for the papers: "I believe in the freedom and the independence of the press."

Affirmative action, he says, "should be through influence and persuasion... one does not want to force it, we would want it to evolve," adding that "sensitisation" of the established businesses could work as effectively as legislation.

One route for black empowerment, he suggests, might be through the government tendering system. Contracts which in the past went to companies favouring the ruling National party could go to the black business community, provided the bidders meet usual criteria.

Does the dominance of South Africa's half dozen big conglomerates stifle competition? "I happen to believe it certainly does."

On Johnnic, Mr Ramaphosa says: "I think it will happen, and this will open up a great number of opportunities for small black businesses."

What does he really think about privatisation? Has the government been dragging its heels, are the unions a big burdle? "Ask me in six weeks' time, when I am no longer ANC secretary general and I'm in my new job."

When pressed, he is a bit more forthcoming. The unions, he says, "have two problems with privatisation – ideological and the fear of job losses. If there was a little more openness, I think the unions would fear less."

Mr Ramaphosa agrees that his move, which has the approval of President Mandela and other senior ANC figures, is an important statement of intent: "There is a shift in the thinking of the ANC."

He cites Zimbabwe as a cautionary tale where the government for too long ignored the economic and business environment, to the country's cost.

To avoid going down the same route, the ANC is laying great emphasis on the issue of black economic empowerment, but Mr Ramaphosa treads carefully when asked how the process will take place.

Michael Holman and Philip Gawith

Cyril Ramaphosa: 'If there was a little more openness, I think the unions would fear less.'

Amanda Morris

Tunisia steps up sell-offs to attract funds

By Roula Khalaf, Middle East Correspondent

The Tunisian government is to accelerate its privatisation programme in order to attract foreign direct investment.

Some 62 companies with total net assets of $1.5bn have been identified for sale in the next four years, with at least half to be sold before the end of 1997.

The plans were outlined by Mr Mohamed Gbannouchi, minister of international co-operation and foreign investment, in an interview. He said companies to be sold off included four large cement producers, a ceramics company and a few hotels.

Despite a long stated commitment to privatisation, only five companies a year were privatised in Tunisia between 1986 and 1994.

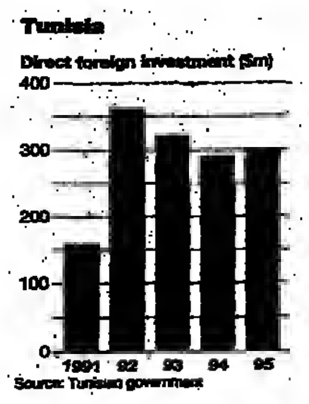
By the end of last year, the original privatisation programme, which envisaged the sale of 75 companies by the middle of 1992, had met only half its target. According to London-based rating agency IBCA, the programme affects 13.5 per cent of Tunisia's public sector.

The Tunisian government has been concerned about the effects of privatisation on *unemployment*, which is estimated at 15 per cent, and has been careful not to transform government monopolies into private sector ones.

The government is not merely looking for the highest price. Bidders are asked to satisfy several criteria, one of which is maintaining a certain number of employees.

But there is reason to believe that the government is now getting serious about privatisation.

Having signed a partnership agreement with the European Union last year, creating a free trade zone to be phased in over *12 years, Tunisia is desperate* to attract foreign investment to raise productivity so that its industries can compete with European counterparts. Opening up its public sector to foreign capital is a main pillar in its strategy for attracting investment.



Government officials have argued that the accord with the EU will hurt the economy unless Tunisia can attract about $200m of new foreign direct investment a year outside the energy sector.

This is a far cry from current levels. In 1995, total foreign direct investment was $300m, with only $85m outside the energy sector.

Much of the investment in the past few years consists of the $600m which British Gas has been spending on a gas project at Miskar in the Gulf of Gabes.

Last July, the government established the Foreign Investment Promotion Agency (Fipa), charged with increasing the level of investment. Many of Fipa's projects, however, are in the range of a few million dollars. With the new EU accord, Fipa hopes to convince multinationals to set up in Tunisia to serve the European markets.

In addition to speeding up privatisation, the government has decided to allow private operators to take on new infrastructure projects. The government has already invited bids for a power generation plant, which will be built, operated *and owned* by a foreign company that will sell electrical power to the government.

Foreign companies will soon be invited also to bid on a new road network.

CONTRACTS & TENDERS

Philippines set to liberalise retail sector

By Edward Luce in Manila

The Philippine congress is poised to enact a bill which would allow foreign retail groups to take 100 per cent ownership of local retail chains, after leading senators yesterday hammered out a compromise on minimum capital requirements.

The retail liberalisation bill, expected to enter the statute books in the next six weeks, would open up one of the few remaining sectors in the Philippines still barred to overseas investors. In the past three years congress has opened up the mining, power, banking, insurance and water sectors to part or full foreign ownership.

"Liberalisation of retail would be yet another nail in the coffin of the economic nationalists in the Philippines and another step forward for economic modernisation," said Mr Keith Craig, managing director of W.I. Carr Securities in Manila. "It would also open the doors to a lot more foreign investment."

Under yesterday's compromise, foreign retail groups such as Marks and Spencer and Wal-Mart would be able to take 100 per cent ownership of operations with a minimum capitalisation of over 10m pesos ($382,000) and a 60 per cent stake in chains capitalised at between 5m pesos and 10m pesos. Foreign portfolio investors would also be able to buy shares in Philippine retail groups.

The two-tier capitalisation formula, which by January 1997 would catapult the Philippines from the most closed economy to retail investment in south-east Asia to the most open, could still be watered down by congressmen under pressure from local retail lobbyists. One possible outcome – mooted by senators yesterday – would be to lift the minimum capital requirement to around 250m pesos and phase in liberalisation over two years.

But proponents of the more liberal version seem to be winning the argument. "There is a possibility the new version will be diluted on final reading next month, but it is increasingly doubtful," Mr Julius Caesar Parrenas, an economics adviser to the government, said. "Consensus is growing that an open economy is the best way forward."

The largest Philippine retail groups, which are recording 15 to 20 per cent sales growth a year, are already signing informal joint ventures with foreign groups keen to enter the expanding market.

Consumer spending in the Philippines makes up over 70 per cent of gross domestic product.

"We have been talking to several of the bigger multinational retail groups but we can't reveal which," said Mr Jaime Augusto Ayala, president of Ayala Land, the country's largest property developer.

"All we can say is: there is strong foreign interest, not least because consumers in this country are receptive to foreign brands."

China urged to step up reform of state sector

By Tony Walker in Beijing

China needs to make more concerted efforts to reform its state enterprises, bolster public finances and drive forward its market reforms if it is to maintain present levels of economic growth, says a World Bank study* released yesterday.

Far-reaching changes to the banking system, including a strengthening of the central bank and increased competition among commercial banks, were needed to underpin China's economic reforms, the study warned. It was necessary for China to speed reforms, especially of state enterprises and the financial sector.

The report coincides with concern among Chinese economists and their western counterparts about a slowing economy. China's growth target for this year is 8-9 per cent, but some economists forecast a lower figure.

The World Bank also stressed the need for the government to "reorient" its involvement in the economy, including facilitating "open market operations" to allocate credit in place of the present rigid quota system. Urgent attention needed to be given to strengthening public finances and to allocating extra resources to "high-priority areas such as basic health and education, poverty reduction, infrastructure development and environmental protection.

"Mobilising revenues to meet these extra expenditure needs will be central to China's ability to sustain rapid growth and stability." In three key areas – reform of state enterprises, banks and public finances – China should:

- Continue to diversify ownership of state enterprises and reduce subsidies; promote competition to encourage greater efficiency by bringing down international and inter-provincial trade and investment barriers, and encourage privatisation of smaller enterprises.
- Reduce the scope and detail of the credit plan under which China allocates resources to allow more discretionary lending by the banks; gradually permit the freeing of interest rates; transform state banks into genuine commercial banks; and strengthen regulation of non-bank financial institutions.
- Increase revenues by 6 per cent of gross domestic product to meet public finance requirements and balance the budget. This would be achieved through a combination of continued economic growth, a broader tax base, and more rigorous tax collection.

The bank paid tribute to China's success in cooling an overheating economy "without stalling growth", but "keeping growth high and inflation low will be difficult and require maintaining the momentum of economic reforms to increase the efficiency of investment". China registered 13.4 per cent growth in 1992, spurring inflation to a post-1949 high of 21.7 per cent in 1994. Inflation was cut to 14.8 per cent in 1995.

The Chinese Economy: Fighting Inflation, Deepening Reforms. World Bank, 1818 H Street NW, Washington DC 20433, US

China plans to abolish ceilings on interest rates in its fledgling yuan interbank market, which began operating on January 3, writes Tony Walker. "The central bank has decided that, as at June 1, it will no longer resort to direct controls by setting ceilings for interbank interest rates," the China Securities newspaper reported.

An International Monetary Fund representative said the move would in effect formalise existing arrangements, but he also noted the interbank market was at an experimental phase and trading was still light. "Most banks have a surplus of funds and only a small amount of transactions are being conducted," he said. "Fluctuations in interest rates have therefore been relatively small."

HK Democrats get green light

By John Ridding in Hong Kong

China's top official on Hong Kong affairs said yesterday the Democratic party would be able to participate in politics after next year's transfer of sovereignty, easing fears about Beijing's stance towards democracy in the territory.

Mr Lu Ping, director of the Hong Kong and Macao affairs office, said China did not fear elections in Hong Kong and that all political parties which abide by the law will be tolerated. He noted that the ultimate aim under the Basic Law, China's constitution for Hong Kong, was universal suffrage.

The Democratic party, the biggest group in Hong Kong's elected Legislative Council, has been the target of fierce criticism from Beijing. China plans to abolish the legislature and has indicated it will bar Democratic legislators from a provisional body to replace it.

Mr Lu's comments drew a positive, if guarded, response. "It is important that there is a bridge between Chinese officials and the largest political party in the territory," said Mr Chris Patten, governor of Hong Kong.

The Democratic party expressed satisfaction with Mr Lu's statement, made during an interview with a US television network. But Mr Anthony Cheung, the party's vice-chairman, cautioned that the provisional legislature, to be set up by China, might introduce laws to curb political parties.

According to Mr Lu, elections to replace the provisional legislature are expected in mid-1998. All members would be chosen through general elections and the pace of democracy would be stepped up in an "orderly and gradual" way, he said, without elaborating on the electoral methods.

The head of the Hong Kong and Macao affairs office also sought to provide reassurance on the choice of the territory's first chief executive. His comments come as the contest for the post of chief executive hots up. Last week, Mr Lo Tak-shing, a solicitor close to Beijing, became the first candidate to declare publicly his interest in the post. Mr Tung Chee-hwa, the shipping tycoon, is still seen as a potentially strong contender.

- The Hong Kong government yesterday announced a reshuffle of some of its top posts. Mr Tony Miller, director-general of trade, who has led Hong Kong in international trade negotiations, has been appointed director of housing. He will be replaced by Mr Alan Lai, most recently senior deputy secretary for the Treasury. Mr Fung Tung, the present housing director, is to retire.

Shifts in HK business, Page 13

Thai PM boosts image with reshuffle

By Ted Bardacke in Bangkok

Mr Bodi Chunnananda, former head of Thailand's budget bureau, was named finance minister yesterday in a cabinet reshuffle that also saw a new foreign minister and the exclusion of some of the country's most unpopular but powerful politicians.

The make-up of the new cabinet is likely to improve the image of Mr Banharn Silpa-archa, the prime minister, but does little to heal some of the structural rifts in his seven-party coalition, analysts said.

As a result, Mr Banharn and other politicians were already talking about another cabinet shake-up in just three months.

Mr Bodi, 61, is a technocrat with a long record of government service at the finance ministry, which he now directs.

This sets him apart from the man he replaces, Mr Surakiart Sathirathai, whose background as a politically ambitious lawyer was the subject of constant complaints within the financial community.

At the budget bureau Mr Bodi was known to be fiscally conservative – Thailand consistently ran budget surpluses during his tenure – although generous amounts of funds flowed to projects located in Mr Banharn's home province of Suphanburi.

The new foreign minister is Mr Amnuay Viravan, a former banker, who will also continue to serve as deputy prime minister for international economic affairs. He replaces Mr Kasem Kasemsri, who resigned.

Mr Banharn re-appointed all five cabinet members from the Palang Dharma party, including Mr Thaksin Shinawatra, who resigned as deputy prime minister last week in an attempt to put pressure on the premier to drop some controversial members of cabinet.

The tactic apparently worked as three members of the powerful Therd Thai faction within Mr Banharn's Chart Thai party – including Mr Newin Chidchob, former deputy finance minister, and Mr Suchart Tancharoen, former deputy interior minister – were left out of the new line-up.

This could cause Mr Banharn problems in the future although all three were replaced by other members of the same faction. While Mr Banharn continues to double as interior minister, he named Mr Anusorn Wongwan as his new deputy.

Mr Anusorn's father, Mr Narong Wongwan, who the US alleges has been involved in drug trafficking, has demanded the interior ministry post for himself while strenuously denying the drug allegations.

Thailand's military, which has staged 17 coups since 1932, made no public comment on the cabinet moves. The reshuffle did not involve the New Aspiration party, the coalition's second largest party, led by General Chavalit Yongchaiyudh, the defence minister.

Junta's strength proves its own worst enemy

Releasing Burma's opposition leader has exposed the divisions in the military, writes Ted Bardacke

When Burma's military junta released the pro-democracy leader Ms Aung San Suu Kyi from house arrest nearly a year ago it was widely seen as a sign of strength. The economy was growing and ethnic unrest had been subdued. Freedom for their most feared opponent was a luxury the State Law and Order Restoration Council (Slorc) felt it could afford.

At first they seemed to be proved right. Japanese business started to take a keen interest and the country was promised admission to the Association of South-East Asian Nations.

Events of the past week have taken off some of that shine. The regime's hardline response to Ms Suu Kyi's seemingly innocuous plans for a conference of her National League for Democracy has backfired both internally and externally. Despite harsh warnings from the official media, the crowds who gathered outside her house were the largest ever, and external criticism came not only from the West, as expected, but also from previously silent partners such as Japan, South Korea and Thailand.

But despite the regime's claims that last week's arrests of more than 250 NLD leaders saved the country from "anarchy", the government, backed by a 380,000-strong army, is not about to be challenged by a small unarmed group with little more than courage and a six-year-old election victory on their side.

"Short of violence, there isn't going to be much change in the short term," said Mr Eugene Davis, managing director of Finansa Thai, a merchant bank which invests in Burma. "Whatever she [Ms Suu Kyi] does won't undermine stability. Slorc is pretty firmly in control."

"Slorc actually thinks they have been lenient," said one observer in Rangoon. "They can always crack down for real. Some officials might worry about what the international reaction would be, but many really mean it when they say they don't give a damn."

Much of Slorc's bravado stems from having been able to tame the ethnic strife that plagued them through much of the early 1990s. Ceasefire agreements have been signed with 15 of the 16 armed groups operating around the country and negotiations are currently under way with the last to hold out, the Karen National Union. Khun Sa's opium army surrendered early this year, leaving the drug trade untouched but allowing Slorc to redirect troops elsewhere.

Meanwhile, the economy continues to grow, although how much and why is a subject of debate. Because of a dual exchange rate which subsidises the most important state enterprises, 8 per cent growth rates are probably inflated. The budget deficit and consumption levels have been increasing while overall and private investment (as a percentage of gross domestic product) have been declining, according to the International Monetary Fund.

Yet because most private investment is funnelled through joint ventures with state enterprises or other government-affiliated organisations, Slorc officials are the ones that feel the economic growth most directly and are able to funnel some of the proceeds into increased military spending.

But if Ms Suu Kyi cannot directly challenge Slorc's rule, she can provoke it, as she did again yesterday by announcing that the NLD would draw up a new constitution to rival that being drafted by the military.

This fluid situation is likely to expose rifts within Slorc. "As long as they did nothing, it was easy to remain unified," one diplomat said. "But if they are forced to react, debates about how to do so are bound to appear. That could be a real problem for them down the line."

Negotiations with the ethnic groups already may have provoked some disagreements, analysts say. Efforts to deal with the groups by Gen Khin Nyunt, Slorc's first secretary, have been viewed with some scepticism by the more hardened military men who would prefer to pursue all-out military victory.

This rift is said to extend into how to deal with the NLD, with the military establishment preaching relative restraint to avoid bearing the responsibility for a potentially bloody crackdown, and Gen Kyio Nyunt taking a harder line, fearing that momentum for the NLD could upset the delicate balance he has forged in the provinces.

Yam Gyi Aung, National League for Democracy member, flashes a victory sign after the party congress ended yesterday Reuter

ASIA-PACIFIC NEWS DIGEST

N Korea pilot tells of blitzkrieg plan

A North Korean pilot, who defected to South Korea last week in a 1960s MiG-19 fighter, yesterday claimed North Korea had a plan to seize all of South Korea in a week-long blitzkrieg. "The armed forces are ready to execute the plan should (North Korean leader) Kim Jong-il order it," Captain Lee Chol-su said. But other comments made by the pilot raised doubts on whether North Korea could successfully conduct such an attack. Fuel shortages had grounded many fighter aircraft, forcing the North Korean air force to limit training flights and instead increase ground drills, he added.

Capt Lee escaped to South Korea during a rare training flight from his base at Onchan, near Pyongyang. South Korean officials said he easily eluded pursuit by his colleagues because of the poor state of the North Korean air surveillance system. *John Burton, Seoul*

Japanese leading indicators slip

Japan's index of leading economic indicators fell below a symbolic boom-or-bust line in March for the first time for six months. The Economic Planning Agency said the diffusion index of leading indicators for the month was 45.5 per cent, its lowest since August. The index is a generally reliable indicator of conditions about six months ahead; the figure of 50 is seen as marking the borderline between growth and stagnation. The coincident index, measuring current economic activity, also fell below the 50 figure for the first time since last autumn, hitting 40 per cent. But EPA officials said the March setback did not alter their overall assessment the economy was on a moderate recovery track. *Gerard Baker, Tokyo*

Malaysian exports at record

Malaysia yesterday reported a significant trade surplus for March, as exports surged to a single-month record after a lacklustre showing in January and February. Analysts said the figures helped allay fears that the economy was overheating and that the government's export drive was not having its desired effect. The March surplus was M$519m (US$208m) compared with deficits of M$736m in February and M$1.4bn in March 1995. It was the first such surplus since December 1995, when there was a surplus of M$655m. Exports in March hit a record M$18bn, compared with M$13.95bn in March last year. *James Kynge, Kuala Lumpur*

NEWS: UK

Backlash over beef 'war' strategy

By Neil Buckley in Brussels and James Harding in London

Mr Franz Fischler, EU Commissioner for agriculture, will propose today that the EU pays farmers Ecu650m ($806m) out of the 1996 budget in one-off aid payments to offset losses caused by the beef crisis, Caroline Southey writes. The bulk of the money would be paid to all farmers who qualify for premium payments on male cattle and suckler cows. But member states will be allowed to allocate Ecu116m of the total package to farmers they believe have not been fully compensated.

Mr Fischler's proposal, which is expected to receive the backing of the full commission today, is designed to inject money into the beef sector where average prices have fallen by 5 per cent across the union since the crisis broke two months ago.

Farmers who qualify for the special beef premium for male cattle will receive an additional one-off payment of Ecu21 while those who qualify for the suckler cow premium will receive Ecu25.

The UK yesterday escalated its campaign of non co-operation with European Union business in protest over the ban on British beef exports, blocking 12 ministerial decisions – including those on measures it had previously supported.

But the government was immediately criticised by its own MPs for presenting a confused front. Mr Roger Freeman, deregulation minister and the man heading the "war cabinet" co-ordinating the government's beef strategy, suggested the UK obstruction would have little immediate impact on EU work.

Mr Freeman was also pressed to clarify his observation that some restrictions on Britain's beef exports could continue for several years.

Other EU states and the European Commission sought to play down the effect of yesterday's UK vetoes – largely on minor or procedural issues – but warned that prolonged disruption by the UK could damage the Union.

"In the short term, in concrete terms, [the UK's actions] have no effect," said Mr Mario Monti, single market commissioner. But if this situation persists for any lengthy period of time and affects decisions without which things could not proceed, that would be damaging in political and institutional terms," Mr Monti said.

Mr Freeman told EU ministers the government would continue to block decisions requiring unanimity until the UK secured a "framework agreement on a step-by-step lifting" of the beef export ban. He denied suggestions the government had dropped demands for a timetable, saying that "from any discussion on a framework, a timescale will inevitably emerge".

But he admitted it might be impossible to persuade all countries to lift all elements of the beef export ban until BSE, or mad cow disease, had been eradicated. Asked how long eradication would take, Mr Freeman replied: "It certainly isn't months. That is because ... the gestation period is a whole number of years, the order of four, five or six years.

"Therefore it is not possible ... to forecast precisely when we can say the UK is wholly BSE-free," he added.

But he said later he believed the beef ban could be lifted well before this point, in a staged approach. Once the ban on exports of beef derivatives such as tallow, gelatine and semen was removed, a next step might be restarting beef exports to countries prepared to accept them.

Slaughter chaos reveals need for cattle 'passports'

By Alison Maitland

Government officials and farmers' leaders had no clear idea how many beef steers and heifers would end up as condemned carcasses when ministers announced their plan to cull all cattle over 30 months.

There are no official records to indicate an animal's age at slaughter, and thus no figures from which to extrapolate how many were 2½ years old when the bovine spongiform encephalopathy crisis erupted on March 20.

Industry estimates of the numbers to be destroyed range from 150,000 to 400,000 and are based on guesses of what percentage of the 2.5m beef cattle killed in a normal year would have been aged 30 months.

This is just one of the many problems arising from the lack of a national database on cattle. The government is moving to fill some of the gaps – and help persuade other EU member states to lift the beef export ban – by introducing cattle "passports" next month.

These documents will carry the animal's date of birth, breed, sex and possibly other information, and will be handed over as the animal is moved from farm to market and on to the abattoir.

But official action is too slow for large retailers like Tesco and J. Sainsbury. Both supermarket chains are talking about trialling their systems within months.

The system proposed for Sainsbury would involve a radio frequency tag which could be attached to an animal's ear tag and "read" using a hand-held device attached to a portable computer. The farmer could enter information on the chip, which could later be transferred to the meat at the abattoir. Once at the supermarket, the information could be called up on computer by tapping in a code from the label attached to each pack of meat.

Northern Ireland already has its own national database for cattle, launched by the agriculture department in 1987, and similar to those used in Belgium and the Netherlands.

Information on all cattle, and now pigs too, is stored on a central computer, with terminals at vets, markets and abattoirs. Each animal has its own code, so officials can instantly check if it has been in contact with disease or is part of a herd where illegal hormone use is suspected.

Government accused of creating milk scare

By James Blitz and Mark Suzman in London

Many other foods also likely to contain traces of chemical

Phthalates, the chemicals at the centre of the current baby milk health scare, are manufactured on a large scale – world production last year was 3m to 5m tonnes. They are added to plastics, particularly PVC, to make them more flexible.

The first health scare surrounding phthalates occurred in the 1980s. Scientists pointed out then that the chemicals could contaminate foods wrapped in plastics so phthalates are no longer incorporated in food packaging.

The current health scare focuses on the fact that phthalates – like several other groups of industrial chemicals – can mimic the effect of the female sex hormone, oestrogen, on the body. The Ministry of Agriculture, Fisheries and Foods' Food Safety Directorate, whose report triggered the current baby milk scare, concludes that the phthalates originated at least in part from general environmental contamination rather than from the packaging used, as has been suggested. Traces of phthalates are therefore likely to be present in human breast milk and in many other food products.

The UK's leading manufacturers of baby foods yesterday attacked the government for its handling of the recent crisis over formula milk, claiming ministers were creating far more anxiety over the issue than was warranted.

As ministers continued to turn down calls to reveal the nine brands of baby milk which are said to contain phthalates – chemicals which potentially impair fertility – the industry's representative body said the government had helped to spread anxieties by its handling of the issue.

"Some of the information has been presented in a less than helpful way," said Miss Heather Payne, spokeswoman for the Infant and Dietetic Foods Association. "The government has probably created more anxiety over this issue than it need have done."

As thousands of mothers called leading manufacturers over claims that their products could be contaminated, Miss Payne said the government had fuelled anxieties by stating that its scientists had discovered nine brands of milk containing phthalates – without revealing which they were. She argued that phthalates had, in fact, been discovered in all of the samples tested by government scientists – and that it was therefore meaningless to refuse to name the brands looked at by the Ministry of Agriculture, Fisheries and Food.

"They could have named the brands," she said. "We are certainly happy to say that all the main manufacturers have found it in their products."

Miss Payne said the government's original research was imperfect and should have looked at the presence of phthalates over a much wider area. "They could have looked at breast milk, where there is far more evidence of the presence of phthalates than there is in our formulas," she said.

Despite the furore, officials at the ministry continued to hold out against publicising the names of the brands, arguing that none of them posed any risk to public health. "We are not naming them because there would be legal implications. It is not natural justice to start naming the products because there is no risk."

Former Barings director banned

By John Gapper, Banking Editor

Mr Geoffrey Broadhurst, Barings' former finance director for investment banking, was yesterday barred from working in a similar capacity for three years by the Securities and Futures Authority.

Mr Broadhurst is the second of nine former Barings managers to be disciplined by the SFA following the collapse of the merchant bank last year after huge derivatives losses.

The SFA said that Mr Broadhurst failed to "understand, control and reconcile" the provision of margin funds to Baring Futures (Singapore), the unit headed by Mr Nick Leeson, which brought down Barings with losses of £830m.

Mr Broadhurst, who now works as head of finance at Business Systems Group, a computer systems company, said that he did not accept the findings – but had not appealed because of the heavy legal costs involved.

"I have not agreed to anything written about me by the SFA," he said. "The only way they would enter discussions with me was on the basis that I admitted some of their allegations against me, and I was not willing to do that."

The SFA said that Mr Broadhurst had been removed from its register of directors and register of managers, and would pay £10,000 costs. Re-registration would not be considered for three years.

It said that as head of group finance Mr Broadhurst was responsible for preparing financial statements. However, he had failed to properly record the transfer of funds to Singapore from London, or ensure that this was done.

It also said he had failed to ensure that a lack of reconciliation in funding – which created a hole in the Baring Securities balance sheet – was addressed in an internal audit that took place in Singapore in July 1994.

Mr Ron Baker – one of the nine former managers originally targeted – is taking his case to an SFA tribunal. The former head of derivatives trading at Barings denies the accusations made against him.

Mr Peter Norris, the former chief executive of investment banking at Barings, has already admitted blame and been banned from being a director in the City for three years. He is working part-time at a publishing company.

Mr Peter Baring, the former chairman, and Mr Andrew Tuckey, the former deputy chairman, were not among the nine the SFA sought to discipline, although they have given assurances about not seeking work in a similar capacity in the City.

UK NEWS DIGEST

British Energy shares launched

The marketing of British Energy, the nuclear power utility, was launched yesterday with a £4m ($6.08m) television and print media campaign that includes the mailing of leaflets to 5m households nation-wide. The government has allocated 30 per cent of the flotation to retail, or household, investors. There will be an international roadshow launching the shares to international investors towards the end of June.

Dewe Rogerson, the government marketing adviser, expects the flotation to raise about £1.8bn, of which about £600m will come from retail investors. If the flotation does raise £1.8bn, proceeds to the Treasury would amount to £2.5bn after £700m of government debt is repaid by British Energy.

British Energy is the last big privatisation for the current government, with the Post Office and Her Majesty's Stationary Office the only remaining businesses of any size. To date privatisations have raised £64bn. *Simon Holberton, London*

Rail sale may be European model

The privatisation of British Rail could provide the springboard for international transport groups to acquire railway operations elsewhere in Europe, according to a leading French transport group. Mr Antoine Hurel, director of significant projects for CGEA, said that if private sector transport companies made a success of running trains in the UK, they would gain enough credibility to bid for privatised railway operations in other parts of Europe. CGEA, the transport division of Compagnie Générale des Eaux, the French utility, took over the Network SouthCentral franchise on Sunday.

CGEA, which claims to be the biggest private transport operator in Europe, has put in bids to take over regional train services and freight operations in Germany. Mr Hurel forecast an opening up of the European rail network to private operators as countries implemented an EU directive requiring the splitting up of track ownership and train operations. *Charles Batchelor, Transport Correspondent*

Racism alleged at Ford

Ford Motor Company yesterday defended its equal opportunities record after a legal challenge over alleged racism. Seven black and Asian production workers in Ford's plant at Dagenham in Essex have claimed they were refused transfers to lucrative jobs as lorry drivers because the selection system was biased against them.

The TGWU transport union said that although 40-45 per cent of Dagenham's manual workforce were of ethnic origin, they comprised only 2 per cent of the drivers of Ford's Dagenham-based fleet of 300 delivery lorries. Drivers earn about £30,000 ($45,600) a year – twice production line pay.

Ford said that since the matter was being heard by an industrial tribunal next month, it would be "inappropriate" to comment on specifics. But it insisted: "Ford has a long-standing equal opportunities policy and joint statement with the unions on equal opportunities." Earlier this year Ford apologised to four of its black and Asian assembly workers at Dagenham and paid them compensation after white faces were superimposed on their features in an advertising campaign. The workers concerned each received £1,500 compensation for "hurt feelings". *Andrew Bolger, Employment Correspondent*

Fridge competition hots up

Refrigeration is raising the temperature in the competitive domestic refrigerator industry with a big investment plan tied to an extensive programme in worker training. The company, owned by Sime Darby, the Malaysian industrial conglomerate, is spending £30m ($45.60m) on a factory to make a new design of fridges due to hit the market next year. It is also spending an estimated £1.1m to train its 1,000 employees in "continuous improvement" methods based on teamworking.

The company, based in Bognor Regis, West Sussex, has about 15 per cent of the UK market for domestic fridges, worth about £600m a year. Its main rival is Hotpoint – owned jointly by GEC of the UK and the US's General Electric – which also has about 15 per cent of the market according to independent industry estimates.

Of about 2.5m fridges bought annually by UK consumers, more than half are imported, particularly from low-cost production operations in countries such as Italy and Turkey. Retailers such as Comet, part of the Kingfisher group, and Currys, owned by Dixons, have in recent years moved aggressively into "own label" fridges imported from low-cost suppliers. *Peter Marsh, London*

CORRECTION: A league table of European corporate finance advisers compiled by Securities Data Company in the Financial Times on May 22 placed Coopers & Lybrand at 24th in 1995. Coopers & Lybrand point out that according to Acquisitions Monthly/Amdata they were top in 1995.

Slow progress on Irish peace talks

By John Murray Brown in Dublin

Mr John Bruton, the Irish prime minister, said yesterday an Anglo-Irish summit could be arranged at short notice, amid signs of continuing deadlock over the arms issue.

His comments came as Mr Dick Spring, the Irish foreign minister, and Sir Patrick Mayhew, the Northern Ireland secretary, held another inconclusive meeting in Dublin in an attempt to agree an agenda for the all-party talks due to start on June 10.

Mr Spring said the exchanges had been "satisfactory", and reported some progress. The two sides are to meet again early next week.

However differences remain over how to tackle the issue of arms decommissioning when the all party talks open, and also over the chairmanship of the negotiations.

Both Sir Patrick and Mr Spring were quick to quash suggestions that all party talks might be postponed.

The UK wants to see actual decommissioning during talks, while Dublin says the parties should only be required to "consider" ways to achieve decommissioning.

Both sides support the idea of US Senator George Mitchell as chairman of the decommissioning strand of talks, but Dublin believes he should be asked to take on a wider brief to oversee the plenary session and the North-South strand of the talks.

Pressure builds for solution to arms decommissioning

By John Murray Brown in Dublin

As yesterday's Anglo-Irish ministerial meeting got under way in Dublin neither side seemed anxious to build up expectations of an imminent breakthrough.

Yet with just over two weeks to go to the all-party talks on June 10, both governments are painfully aware that their failure to agree on a formula to tackle decommissioning of arms might well have taken the pressure off Sinn Féin to secure a new ceasefire by the IRA.

The Irish government believes that a resolution of this issue is vital if the all-party talks are to progress. The IRA has indicated that it will not reinstate the ceasefire unless the British make a commitment that the decommissioning issue will not block political progress.

The wrangle centres on how to link progress on decommissioning to the political talks. The Irish say that London, in demanding a prior commitment on arms, is giving a selective reading to the recommendations put forward by Senator George Mitchell, the former US senator.

The report, Dublin says, requires the parties only to "consider" parallel decommissioning. Dublin is confident that if London could give reassurance that the talks would be "substantive and meaningful", the republicans would be prepared to make commitments on the issues of ordinance, and also the question of IRA targeting and training which the security officials believe is a more pressing issue than decommissioning.

To encourage that confidence, Dublin is also pressing for Mr Mitchell to retain a key role. Dublin believes the talks will need a firm pair of hands, a referee with a full set of yellow and red cards who would be able to keep the parties in line.

Mr Mitchell enjoys the confidence of all the parties, but London would prefer that Mr Mitchell limited his role to that of running the decommissioning talks. The UK is understood to favour Mr Malcolm Fraser, the former Australian premier, as overall chairman of the talks.

The Irish government's anxiety to see the decommissioning issue resolved before talks get under way reflects concern at a much worse prospect – that the IRA could stage a "spectacular" bomb attack, and then announce a ceasefire on the eve of the talks.

Northern Ireland is due to go the polls tomorrow to elect negotiators for the talks on June 10. Some officials are concerned that the outcome of the poll, far from clearing the air and providing parties with fresh mandates to negotiate, could upset the apple cart of the majority unionist community.

The big loser looks like being Mr David Trimble, the leader of the Ulster Unionist party, whose idea the election was in the first place. Mr John Hume's Social Democratic and Labour party could well emerge as the biggest party. But more alarming for the UUP is the possibility that it may be out-polled by the Reverend Ian Paisley's Democratic Unionists (DUP). This would badly damage Mr Trimble, perhaps feeding internal dissent in his party, and leaving him weakened at the negotiating table.

One Irish official yesterday suggested such an outcome could force the two governments to appraise their approach to the talks. Both London and Dublin had banked on the DUP not taking part, assuming there was little chance of DUP participation, if Sinn Féin were also present.

City prepares to wine and dine the soccer media

Ian Hamilton Fazey reports on Liverpool's hopes of turning sports reports into urban propaganda

The city of Liverpool in the north west of England is expecting much more than a fillip for the local economy from the Euro 96 soccer tournament. It has been a bad year so far for the city's image, with a spate of gangland shootings and a labour dispute at the docks reminiscent of the bad old days. But Euro 96 will bring with it a media horde which will occupy the city for extended periods. Liverpool's propagandists are ready for them.

Most of the media will be sportswriters who usually pay little heed to urban regeneration. They are all opinion formers back home, however, and the most important come from Italy.

"Football is more of a social philosophy than a sport in Italy," says Mr Peter Davies, head of public relations for Liverpool City Council. He thinks Italian football writers will be keen to set Liverpool in a social as well as a soccer context and will draw favourable conclusions.

The city is hosting matches between Italy, Russia and the Czech Republic at Anfield, home of Liverpool FC, Europe's dominant club until the 1985 Heysel Stadium disaster led to a seven-year ban from European competition.

The other group member is Germany, but they will play all three of their first-round matches at Old Trafford, home of Manchester United FC, Liverpool's deadliest rivals. This is bad luck for Mr Davies and his team. Germany is the second biggest inward investor in the UK – after the US and ahead of Japan. Its journalists might have been more prized than the Italians.

Mr Davies has few illusions about UK national newspaper journalists, however. Some of them have already made fleeting visits from London to write damaging – he says ill-informed – articles in recent weeks, as shootings increased.

"It's true there has been a 15 per cent increase in gun-related crime on Merseyside," he says, "but the increase was 108 per cent in the Metropolitan Police area of London between 1983 and 1993. A gun is fired in a crime in London every day. Nothing like that happens here." He sees the city as a victim of "preconceived paranoia" among London-based newsdesks.

There will be a serious effort, however, to persuade non-sportswriting London journalists that Merseyside is pulling itself up by its economic bootstraps, aided by £630m ($957.6m) of EU funding after the area's per capita gross domestic product dropped below 75 per cent of the EU average in the early 1990s.

On June 11, when Italy play Russia, eight national newspaper writers will be guests of the Mersey Partnership of public and private sector leaders. They will get a tour of Merseyside's improvements, a slap-up lunch before the match – which they will watch from prime seats – and will meet business leaders and senior civil servants. Mr Neil Rami, the partnership's marketing manager, admits the lure of seeing two of Europe's best teams provided unique pulling power, so the partnership exploited it.

Mr Davies and Mr Rami, however, think propaganda will not be needed for any visitors. "This city sells itself on its merits once you get people here," Mr Davies says. "They quickly realise things are not the way they read they were in their newspaper."

The private sector is taking no chances, providing £100,000 of sponsorship to clean up key sites. Unilever, the British part of which started life in Port Sunlight, near Birkenhead, is footing Liverpool's civic hospitality bill, while a local newspaper, the Liverpool Echo, and the city council are setting up Audiotext telephone lines so callers can get updated information in Italian, Russian, Czech and German on local attractions and team news. Taxi drivers have been taught foreign greetings.

Ticket sales have been strong in Italy and the Czech Republic at about 7,000 per match, but poor in Russia with less than half that. In Germany there have been 10,000 tickets sold for each match at Old Trafford, where a new tier on one stand has increased capacity to 55,300. Anfield holds 41,000.

No one knows how many Italian supporters there will be because thousands live in Britain and many may have obtained tickets locally. Italian-owned restaurants in Liverpool and Manchester expect a roaring trade.

Manchester has fewer image problems and has arranged a co-ordinated programme of entertainments. Both cities have hotel rooms available – as rooms over-reserved for block bookings are put back on the market – but say that hotels are filling well. Plans for campsites have been dropped. Tourist offices will have teams of interpreters on hand.

The police have been happy to extend licensing hours up to 4am in both cities. Only one worry seems to trouble the organisers, although they admit it only privately: what will happen if England play in the Anfield quarter-final or Old Trafford semi-final? They fear some supporters from London almost as much as Mr Davies fears another visit from a London journalist.

BUSINESS AND THE ENVIRONMENT

Exhaust in the bag

California in 2000 will introduce the most stringent car exhaust emission controls in the motor industry's history. And Saab, the Swedish car maker 50 per cent owned by General Motors, claims to have them in the bag.

Saab has developed an emissions reduction system based around a 100-litre inflatable plastic bag – shallow, but occupying a large part of the surface area beneath the car's boot.

The bag's function is to collect exhaust gases from the engine in by far its "dirtiest" phase of operations – the first 25-30 seconds after start-up, when the fuel mixture is at its richest and the exhaust-cleaning catalytic converter has yet to reach working temperature.

Once the catalyst has warmed up, the exhaust gases briefly stored in the bag are recycled back through the engine and, second time around, dealt with effectively by the "cat".

Saab claims the system enables engineers to overcome one of the biggest remaining obstacles to the development of a near-zero emissions petrol engine. Of potentially crucial importance is the company's estimate that the system would add only $75-$150 (£50-£100) to production costs – far less than much alternative technology under development.

When the engine is started from cold, a valve in the exhaust system closes to divert the exhaust into the bag. After about 25 seconds, when the cat has reached working temperature, the engine management system opens an outlet valve in the bag allowing the exhaust gases to be sucked into the inlet manifold to pass through the combustion process again.

At the same time the bag's inlet valve is closed and the exhaust valve re-opened to allow normal engine operation.

Tests already run by Saab in the US show emissions "comfortably" below the Californian standard for "Ulevs" – ultra-low emissions vehicles – to be introduced in 2000.

John Griffiths

Leyla Boulton reports on the clash between the insurance and energy industries over global warming

Debate warms up

When international climate change experts launch a report next Wednesday which has already been attacked by the world's energy industry lobby, they will have an important new ally at their side.

Insurance executives are about to adopt a separate paper calling for "a substantial reduction" in the greenhouse gas emissions which trap heat in the atmosphere and are believed to contribute to global warming.

The paper will be the most tangible result of a conference in London last week of 60 big insurance companies seeking to improve the management of environmental risks that are costing their business huge amounts of money.

The United Nations Environment Programme (UNEP), which co-sponsored the conference, reckons that from 1987 to 1993, "16 one-billion dollar plus catastrophes linked to the environment resulted in worldwide insured losses of over $50bn [£33bn]". Of those, 85 per cent were due to windstorms and 15 per cent to earthquakes, oil spills and fire.

The report by the International Panel on Climate Change, charged by governments to investigate global warming, says that human beings have a "discernible" influence on global warming. The best known source of such influence is the emission of carbon dioxide generated mainly by the consumption of fossil fuels.

But the World Energy Council, which represents the energy industries of 100 countries, has claimed the report's conclusions are based on shaky evidence and are an attempt to win research grants for scientists.

Andrew Dlugolecki, assistant general manager of General Accident, the UK insurer which helped organise last week's conference, says he is "quite surprised" by the WEC's "negative" stance. He also claims that many energy industry executives disagree with the WEC statement. "They believe the debate has moved on from this kind of negative stance on the basic science."

Carlos Joly, senior vice-president for environmental policy at Norway's Uni Storebrand, says the industry is also concerned about global warming because of its possible impact on the big investment portfolios it manages. For this reason, insurers need to "become more knowledgeable about which industries might be most negatively affected by climate change and which might end up being favoured". Not to do so would amount to a failure of due diligence.

"Ten years from now I don't think any prudent portfolio manager wants to be told 'you should have known better'," he says. Uni Storebrand, for instance, is one of the biggest institutional investors on the Oslo stock exchange, managing assets of around $15bn.

Windstorm damage: environmental risks cost insurers huge amounts of money

While it is not clear how and when climate change might strike, Joly says gradual pre-emptive action would prove "more cost-effectiva" than a "business as usual approach of waiting for the evidence to firm up and having to act quickly and suddenly 15 years down the line".

He argues it is absurd to wait for scientific certainty on global warming when "serious businesses every day" make investment decisions worth billions of dollars on the basis of far less than certainty.

"Who is acting with scientific certainty when they say that interest rates are going to be x in y months," asks Joly, another member of the steering committee behind the London conference and its follow-up.

The insurers will be making their case to governments at the international climate change negotiations in Geneva next month ahead of more talks in Japan next year to agree specific reductions in carbon dioxide emissions.

But raising the industry's profile in the global warming debate is only part of broader efforts to manage environmental risks across the board. The initial aim of the London conference was to put flesh on the bones of a statement of environmental commitment by UNEP which participants signed last November.

It pledged, among other things, to promote sound environmental practice within the insurance industry and among the companies insured. "Environmental risk is financial risk," says Hans Alders, UNEP's European director. "This means that insurance companies have a lot to gain from better understanding of environmental risks and how to respond to them."

In Europe, companies have responded to environmental concerns by gradually narrowing the kind of risks they are prepared to insure to "sudden" and "accidental" ones. Companies say more exacting conditions for cover have helped to improve the environmental performance of many of the insured.

"A well-run company should not have a problem because they should not be intentionally releasing polluting materials," Dlugolecki says.

In contrast, US insurers, which have been hardest hit by environmentally-related claims, have tried to write out environmental risk from their policies. Instead they have found themselves bogged down in hugely expensive lawsuits on whether they should be liable for cleaning up contaminated land under the federal Superfund programme.

Given their wealth of experience in environmental claims, it may seem paradoxical that US companies have stayed away from the emerging co-operation of European, Japanese and other international insurers. Frank Nutter, president of the Reinsurance Association of America, says one problem is that companies fear they could be held legally responsible for signing up to the UNEP statement on environmental commitment.

Dlugolecki says he believes insurers outside the US would rather not follow the American model of trying to exclude all environmental risks from their policies.

However, much will depend on how regulations outside the US evolve and on the stance taken by the courts in disputes which could, for instance, flare up over new UK laws for the clean-up of contaminated land.

An early pointer to the future could come when the European Commission considers over coming months whether to propose a directive or looser recommendations on European Union-wide definitions of companies' environmental liability. The sorts of questions likely to arise would include how far into the future companies should be liable for past pollution.

"Where we would draw the line is that we should cover any environmental risk whatsoever," says Dlugolecki.

A new kind of 'green' fund

Screening eco-efficient companies is the key, says **David Lascelles**

An investment fund which screens companies for their eco-efficiency is about to be launched by one of Wall Street's leading fund management firms and Norway's largest insurance company.

The Environmental Value Fund (EVF) has been designed by Scudder, Stevens & Clark and Uni Storebrand to identify companies worldwide which have a record of environmental awareness and a high level of sustainability in their operations. The aim is to reap an "environmental dividend" by obtaining higher returns than the Morgan Stanley World Capital Index.

Carlos Joly, senior vice-president for environmental policy at Norway's Uni Storebrand, claims that the EVF is the first fund of its kind. He stresses that it is not an ethical or "green" fund which invests in companies which profit out of the environment, for example by selling waste management services or clean-up technology.

The basis for the EVF will be the 2,000 or so companies that Scudder already tracks through its team of international analysts.

Of this number, Scudder recommends some 200 for investment at any one time. The EVF will take this selection and apply tests which have been designed by Uni Storebrand to whittle the number down further.

Each company will be rated on eight criteria: impact on global warming, contribution to ozone depletion, material efficiency, toxic releases, energy intensity, water use, environmental liabilities and environmental management quality. The results will be factored into a sustainability index which should show the companies with the best environmental positioning.

Joly expects that about 75 companies worldwide will qualify for investment, and some 25-30 will be in the fund at any one time. He says half a dozen leading European investment institutions have already committed a total of about $50m (£33m) to the fund, including Swiss Re, Gerling Konzern, Orkla and Uni Storebrand itself.

Nick Bratt, managing director of Scudder's global equity group, says Uni Storebrand's screening procedure has been back-tested on Scudder's portfolio of five years ago. This showed that the stocks yielded an annual return of 22 per cent over the period, compared with Scudder's 17 per cent, and 12 per cent for the Morgan Stanley Capital World Index.

"We expect that this fund will be a money maker for investors – and do some good," he says. However, the fund is being launched in Europe rather than the US because American investors are expected to be sceptical about the approach – and the registration requirements of the Securities and Exchange Commission would be onerous.

Joly says Uni Storebrand had the idea for the fund because of mounting concerns in the insurance industry over environment-related claims: pollution, climate change, accidents.

As an insurer, Joly says, the company felt it could reduce claim levels by investing in companies with a strong environmental record. As an investor, it also believed that it had a fiduciary duty to support companies that were doing least ecological harm. Because of this, it developed the proprietary screening technology.

Joly took the idea to Bratt at Scudder, who was intrigued by the idea of stocks that would yield a superior return.

The hope for above-average returns and the opportunity to create some environmental exposure also seem to lie behind the decision of the sponsoring companies to commit funds.

Bruno Letsch, chief investment officer at Swiss Re, says his company had been interested in environmentally directed investment, but had mostly been presented with proposals for "green" projects like wind and solar power.

What attracted him about the EVF was that it used Scudder's universe of financially sound companies, and filtered them down to those which were good from an ecological point of view. "That makes a lot of sense," he says. Swiss Re will be committing about $10m to the fund initially.

ARTS

Television/Christopher Dunkley

BBC2 sings a theme tune

There is a certain irony in the way that Michael Jackson, controller of BBC2, hes taken with such enthusiasm to running theme nights. Two weeks ago be devoted Sunday night to umpteen programmes about George Best. This week he handed the network over to Billy Connolly for four hours on Sunday evening and we bad such treats as Peter Sellers delivering the lyrics to "A Hard Day's Night" in the style of Olivier as Richard III.

I bad not seen that spoof for 20 years but, unusually, it turned out to he as funny as memory had suggested. The irony is that BBC2 was launched by Michael Peacock in 1964 as a network devoted entirely to themed nights: Sundays for opera, ballet and foreign films; Monday for light entertainment; education on Tuesdays, and so on.

It proved nupopular and was dropped fairly quickly. Cynics may see Jackson's formula as an elaborate means of disguising repeats. Bnt it does make a network stand out from the rest, even if Channel 4 also nses the idea. And the ratings suggest that viewers like it.

*

Jackson's predecessors tried from time to time (one even promised) to show the entire *Bilko* canon in chronological order. None has ever succeeded. Most just used episodes from this, the most seminal of all television comedies, to stuff into odd holes in the ratings.

We might bave hoped for better from Jackson who has the reputation of being an archive expert, but, judging from the appearance of an episode on May 20 and then the absence of others on subsequent Mondays, it looks as though Jackson, too, is going to behave like those bookbinders who used Hogarth prints to stuff the spines of books by more important people.

*

Imagine the scene. The producer of *The Travel Show* sits in a dubbing suite looking through an item in which Penny Junor is giving a run-down on the rare tour organisers which do not penalise holidaymakers who travel alone. Or, this being 1996, perhaps he is sitting in his own office, watching the tape on a digital editing machine.

Anyway, he is checking through the item. And be thinks, "Oh dear, I can hear every word Penny's saying. What shall I do? I know!" and he selects a particularly irritating bit of trumpet music, lays it down bang over the top of her voice, and runs it right through the item.

Consequently no normally intelligent and attentive viewer can take in a word that she says. "Aha!" some clever-clogs will reply, "old fogeydom: don't you realise that today's youth does its homework with one eye on the Internet, another on *Home And Away*, and its ears glued to the latest from Spastic Treacle?" But, first, today's youth does not seem to have any bomework. Second, the buman brain has not actually changed: all that "I can take in three things at ooce" malarkey just means that they are storing no accurate information, merely ingesting a general hlur. And, third, how many computer nerds *want* a painting holiday for one in Umhria anyway?

*

Impossible to allow *A History of British Art* to end without a final salute. This has been ooe of the best arts series shown on British television. What was so good about it? Chiefly the fact that presenter Andrew Graham-Dixon was so obviously thinking for himself from first principles rather than delivering received trutbs or, worse, comfortahly amalgamating established views.

True, he teased us, claiming in the final programme that Kurt Schwitters was a, if not the, key British artist of his generation – a German who chose to live in Norway, spending only the last eight years of his life in Britain hy *force majeure* as mncb as cboice, and unknown to many. It was a pity that, to the end, the director of the series – "Hey Mum, look at my zoom lens!" – was allowed to ruin the impact of the work of so many artists hy substituting bis perverse choice of detail for the artist's choice of what we should see (the entire picture). But presenters are so often at the mercy of such asinine egotism.

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Rightly enough *The Poisoned Chalice*, which finishes tomorrow, has received widespread praise for making the seemingly dreary subject of Britain's relations with post-war Europe into a highly entertaining four-part series.

Michael Elliott's account of the gaucherie and naivety of perfidious Albion in its attempts at diplomacy has caused shame, embarrassment and laughter in about equal quantities. But am I the only one who can remember back to November 1995 when the three-part series *The Last Europeans* on Channel 4 covered the same subject with many of the same newsreels and film extracts?

*

There seems an almost panic stricken desire in television to develop, not another of those comedy chat shows as chaired by Dame Edna Everage or Mrs Merton, but a conventional show like those anchored by Letterman and Leno in the US.

So why has ITV not promoted the London programme *Richard Littlejohn Live And Uncut* to the national network? Is it because he is a man and, throughout televisioo, the promotion of women is still an obsession? Or is it because his accent is not Irish, Scottish, Welsh, or Liverpudlian but London-ish?

He now has a definite style of his own in the chair. He can talk to anyone from cahinet minister to lowlife heavy with complete assurance. He is quick and often funny. He is sometimes rude and no doubt shocks those wbo cultivate shock. It is obvious that he could sustain a national programme, so why is he being beld back? Difficult to avoid the suspicion that it is because his views lean right instead of left.

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Why this sndden ontcry abont nepotism in broadcasting? It is true that Barry Norman begat Samantha, Gloria Hunniford begat Caron Keating, John Mortimer hegat Emily (not to mention Caroline, Jeremy, etc), and there are two generations of Micbelmores, Cellan-Joneses, Magnussons, Raphaels, Redgraves, and nmpteen others working in the business.

But are things any different in stockbroking? Or greengrocery? At least in broadcasting you stand or fall hy your own talent which is there, or not, for all the world to see. Take a splendid new Cbannel 4 series called *Garden Party*: anyone can see that the "video diary" element within this is toncbed hy genius. The fact that the credits reveal the "Video Diary Co-ordinator" to be a young woman – well, scarcely more than a babe in arms really – named Holly Dunkley is neither bere nor there.

Alastair Muir

At least the ending is bloodthirsty: Alan Woodrow and Kristine Ciesinski in Salome

Theatre/David Murray

Hail, good Caesar

For practical purposes, the first thing to be said about Peter Hall's RSC *Julius Caesar* – now transplanted from Stratford to the Barbican – is that it is lucidly staged and put across; so yes, it is a fair bet for your teenage children. They will be left in no doubt that it is a very good play, with depths to be fathomed. They will probably not be much moved by it, though, nor will you.

All of the main characters, and nearly all the rest, are sketched with intelligent conviction. None has a sympathetic density that might compel our responses. Far and away the richest sketch is Julian Glover's tetchy, lofty Cassius, who does not conceal a pleading heart; but John Nettles plays his Brutus as both irremediably self-absorbed and professionally smooth – not hypocritical – with his public face.

Though it is a plausible reading, it means that his crucial scenes with Cassius (their Act I meeting and later the great quarrel scene, both rendered in perceptive detail) and with his self-sacrificing Portia strike few sparks of feeling. We are watching character studies, not raw, vulnerable people.

In fact, Susan Tracy's Portia is not the usual staunch Roman matron, but a near-hysteric from the start; contrariwise, Caesar's wife Calpurnia (Tilly Blackwood) recounts her visionary pre-Ides horrors with something like equanimity.

Christopher Benjamin's effective Caesar tacks between the two poles of imperiousness and frailty, sometimes in a single breath ("For I am Caesar still!" – clutches throat, does near-faint), but registers no special depths beyond them.

Hugh Quarshie has remembered Caesar's tender observation that Antony "revels long o'nights": his (black) Antony is a jaunty playboy raised abruptly to prominence and clout, and his oration over Caesar's corpse has the ranting populist accents of machine-gun rap.

It feels like watching Schiller in translation. One admires the stagecraft and the thoughtful psychology. The assassination of Caesar is grisly enough to alarm, and Malcolm Ranson's choreography spells out the battle of Philippi in exciting skirmishes (Hall insists rightly upon "Phi-LIP-py" as Shakespeare's scansion expects, against the bad old "PHIL-i-PIE").

Guy Woolfenden's economical music, by turns for a quintet of curved "Roman trumpets" onstage and for low electronic throbs off, is an asset.

John Gunter's sets – featureless black walls, a fascist-sized head of Caesar and bits of other sculptures – are in a vein that should now be declared dead, though harmless. The show is much better than that, but a new young audience will not quite see why *Julius Caesar* is supposed to be a Great Play.

Sponsored by Allied Domecq; in repertory at the Barbican Theatre.

Opera/Richard Fairman

ENO sucks the life out of Salome

At least it rises to a bloodthirsty ending. Salome is delivered an uncommonly realistic head, freshly severed and still dripping from the arteries, and the orchestra accompanies her kiss with a climax so bold and brassy that the term "red-blooded" hardly seems sufficient.

Unfortunately, the rest of English National Opera's new production of *Salome* makes a fairly anaemic evening. There seems to be a fashion to deny this most lurid of all operas the luxuriant decadence that it needs. First the Royal Opera's recent production and now David Leveaux's new ENO staging have reduced the drama to its essentials, as though unwilling to admit that its very extravagance and wasteful sense of beauty are central to what the opera is all about.

At ENO we get an off-the-peg production, indistinguishable from what might be seen at any other reasonably awake opera house in the 1990s. Leveaux does the usual thing and updates the opera to around the time of its composition to add some relevance. The set, designed by Vicki Mortimer, is monochrome and on the trendy side. Its shell-shocked wall on an empty stage might do nicely for *Il trovatore* or *Tristan und Isolde* - or just about anything else.

The time is pre-first world war, probably in Germany. Military officers in trenchcoats are much in evidence. Well-heeled blood young men in formal evening dress look on and Jewish elders scuttle about nervously in the background. A sense of impending doom looms over each of these groups, but Leveaux fails to go on and show how his idea is relevant. Salome's role, as a catalyst of bloodshed, is hardly well-defined, and where John the Baptist fits in is anybody's guess, except as an all-purpose prophet of gloom.

No such uncertainties linger in the orchestra pit. Andrew Litton, making a return visit to ENO, knows exactly how he wants the music to go and has the wherewithal to get the orchestra to deliver it with panache.

Litton plays it big and loud. The myriad details of the score get submerged, as his bold romantic orchestra surges forwards. In the process the music also sounds less modern than usual, because we are only hearing the basic harmonic ground-plan, striding from one tonic chord to the next and arriving each time in a blaze of brass and with a thwack on the timpani. It is as though Litton is tackling a swashbuckling showpiece like Strauss's *Don Juan* rather than the subtleties of *Salome*.

Still, he is theatrically alive and the cast responds with equal certainty of purpose to his leadership. Robert Hayward's John the Baptist emerges to sing with straightforward strength and fervour. Alan Woodrow, as Herod, sings strongly too, getting the words across wherever he can, but in his case the lack of complexity is less appropriate. The mind of neurotic, superstitious Herod has more dark corners than he lets on.

John Marsden's Narraboth and Ethna Robinson's Page strike up a more interesting relationship than they usually do. None, however, can stop the star of this night-before-the-apocalypse party being Sally Burgess's glittering hostess Herodias, who finds herself occupying centre stage for much of the time.

She should not, of course. Despite good intentions, Kristine Ciesinski in the title role has trouble dominating the opera. Vocally, she sounds hard pressed to keep her less-than-refulgent soprano riding over the noisy orchestra. Dramatically, abe plays a Salome who seems neither particularly young nor innocent. Her dance is a simple affair with just one veil – symbolic of a production a few veils short of the full set.

Performances at the London Coliseum until July 3.

Dance

Fetish and fantasy

Archaos, the alternative circus company from France, spent most of the late 1980s performing in a customised 650-seater tent known as *Le Capote* (the condom). These days, the troupe favours 4,000-capacity music venues, hence the arrival of its new show, *Game Over*, at the Brixton Academy in London.

There is no stalls seating at the Academy: you simply buy a drink, stand around and, before long, discover that the soles of your footwear have bonded to a thick layer of beery glue. Meanwhile, the building and everyone in it continues to vibrate under the thudding bass line of some mind-numbing techno-rock.

A group of fetish and fantasy fashion victims (members of the Torture Club), encased in "futuristic corsets", "cyberpunk clubwear" and "techno tribal leatherwear", mingle – as far as It is possible for exhibitionists to mingle - with the crowd.

A quartet of BMX bikers race up and down some curved walls: I have seen equally impressive displays given by the urban skateboarders who congregate under the South Bank.

Suddenly, purple light blocks the stage and the sound of helicopter propellers rains down ominously on a scene in which homelessness, unemployment and delinquency (yes, it could be Brixton) is eradicated by the brutal tactics of a special police squad.

Game Over has kicked off as it means to go on. Beneath the paraphernalia of its interactive video, 35mm film, banal music, kitschy lighting effects and irredeemably bad choreography, a bargain-basement of global ideas and hig themes – sex, religion, death, politics - emerges.

Indeed, Archaos is so relentlessly coarse and tediously camp that it makes Lindsay Kemp look a master of subtlety. Here is a show in which painted narcissists pose as anarchists, control freaks expect us to believe that they are hedonists and most of the performers fail to distinguish themselves as dancers, actors, trapeze artists or jugglers.

A rogue MC cracks his whip at everyone in sight: an obese sadist in bondage gear is kept entertained by slave acrobats; and fetishism is confused with eroticism.

Not even the daredevil motorbikers enclosed in the Globe of Death – an act which has generated much hype – can save this ludicrously conceived extravaganza of sheer megalomania. Nor can it eradicate the impression that the Archaos aesthetic is forever lodged somewhere between Gary Glitter and punk rock.

Sophie Constanti

At the Brixton Academy until June 2.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

JAZZ & BLUES
Bimhuis Tel: 31-20-6233373
● Grupo del Terror: congas-player Gerardo Rosales, pianist José Mora and trumpeter Juis Marquez perform *jazz music; 9pm; May 30*

■ BALTIMORE

POP-MUSIC
Joseph Meyerhoff Symphony Hall
Tel: 1-410-783-8000
● Paul Anka: performance by the Canadian singer; 8.15pm; May 30, 31; Jun 1, 2 *(3pm)*

■ BERLIN

EXHIBITION
Altes Museum
Tel: 49-30-8301332
● Faszination der Antika. Tha George Ortiz Collection: more than 280 Egyptian, Greek, *Roman and* Byzantine objects. Special emphasis is laid on the artistic developments in Greece from the beginning of the *Neolithicum* to the tima of Alexander the Great; to June 30

OPERA
Staatsoper Unter den Linden
Tel: 49-30-2082861
● Il Barbiere di Siviglia: by Rossini. Conducted by Sebastian Weigle and performed by the Staatsoper Unter den Linden; 7.30pm; May 30; Jun 2 (6.30pm)

■ COLOGNE

OPERA
Opernhaus Tel: 49-221-2218240
● Tha Bartered Bride: by Smetana. Conducted by Erich Wächter and performed by tha Oper Köln; 7.30pm; May 30

■ DRESDEN

CONCERT
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Orfeo ed Euridice: by Bertoni. Concert performance conducted by Claudio Scimone end performed by I Solisti Veneti and the Coro San Gregorio Magno; 7pm; May 31

■ DUISBURG

DANCE
Theater der Stadt Duisburg
Tel: 49-203-30090
● Fantasies: a choreography by Erich Walter to music by Tchaikovsky, performed by tha Ballett Deutsche Oper am Rhein; 7.30pm; May 30

■ HAMBURG

CONCERT
Hamburgische Staatsoper
Tel: 49-40-351721
● Dmitri Hvorostovsky: accompanied by pianist Mikhail Arkadiev. The baritona performs songs by Tchaikovsky, Mahler and Sviridov; 8pm; Jun 1

■ HELSINKI

DANCE
Opera House Tel: 358-0-403021
● Helsinki Ballet: perform tha choreographies Etudes by Harald Lander to music by Czerny, Forgotten Land by Jiri Kylian to music by Britten, and Tha Second Detail by William Forsythe to music by Willems; 7pm; Jun 1

■ LEIPZIG

DANCE
Oper Leipzig Tel: 49-341-1261281
● Die Schöpfung: a choreography by Uwe Scholz to music by Haydn, performed by the Leipziger Ballett and the Gewandhausorchester; 7.30pm; May 31

■ LONDON

CONCERT
Queen Elizabeth Hall
Tel: 44-171-9604242
● Blood on the Floor: world premiere of this work by the British composer Mark Anthony Turnage, performed by the Ensembla Modern; 8pm; May 30, 31
Wigmore Hall Tel: 44-171-9352141
● *Enrique Perez de Guzman: the* planist performs works by Montsalvatge, Franck, Ravel and De Falla; 7.30pm; May 30
DANCE
Royal Opera House - Covent Garden Tel: 44-171-2129234
● The Birmingham Royal Ballet: perform Ashton'a Birthday Offering to music by Glazunov and Bintley'a Carmina Burana to music by Orff; 7.30pm; May 30, 31
THEATRE
Barbican Theatre
Tel: 44-171-6388891
● Julius Caesar: by Shakespeare. Directed by Peter Hall and performed by the Royal Shakespeare Company; 7.15pm; May 31
Lyttelton Theatre
Tel: 44-171-9210631
● Blua Remembered Hills: by Dennis Potter. Directed by Patrick Maber and performed by The Royal National Theatre; 8pm; May 31; Jun 1 (also 3pm)

■ LOS ANGELES

EXHIBITION
The J. Paul Getty Museum
Tel: 1-310-459-7611
● Ten Centuries of French Illumination: an exhibition of 20 manuscripts and single illuminated pages, presenting a survey of French painting in books, *from the 9th to the 18th century; to Jul 7*

■ MADRID

OPERA
Teatro de la Zarzuela
Tel: 34-1-5245400
● The Raka's Progress: by Stravinsky. Conducted by David Parry *and performed by the Teatro* de la Zarzuela; 8pm; May 31; Jun 2

■ NANCY

OPERA
Opéra de Nancy et da Lorraina
Tel: 33-83 85 30 60
● Don Giovanni: by Mozart. Conducted by Jonathan Darlington and performed by the Opéra de Nancy. Soloists include Mikel Dean, Nicolas Cavallier, Iulia Isaev and Gabriel Alexandrescu; 8.30pm; May 31; Jun 2 (2.30pm)

■ NEW YORK

CONCERT
Alice Tully Hall
Tal: 1-212-875-5050
● Renee Fleming: accompanied by pianist Halen Yorke. The soprano performs songs by Schubert, R. Strauss, Gordon, Beaser, Heggie, Copland, Turina and Poulenc; 8pm; May 30

■ OSLO

CONCERT
Oslo Konserthus Tel: 47-22-833200
● Oslo Filharmoniske Orkester: with conductor Manfred Honeck perform works by Svendsen, Hovslaf and Tchaikovsky; 7.30pm; May 30, 31

■ PARIS

EXHIBITION
Musée du Louvre
Tel: 33-1 40 20 50 50
● Pisanello (1395-1455). Le Peintre aux Sept Vertus: major *retrospective* exhibition devoted to the 15th-century Italian court painter and medallist Pisanello. The display features some *320* works by the artist, hia contemporaries and his followers; to Aug 5

■ THE HAGUE

CONCERT
Dr Anton Philipszaal
Tel: 31-70-3607927
● Residentie Orkest: with conductor Jos van Immerseel and pianist Ronald Brautigam perform works by Arriaga and Beethoven; 8.15pm; May 30, 31

■ VIENNA

CONCERT
Musikverein
Tel: 43-1-5058681
● *Sächsische Staatskapelle* Dresden: with conductor Giuseppe Sinopoli and soprano Alessandra Marc perform Schoenberg's Erwartung and Bruckner'a Symphony No.4; 7.30pm; May 30
● Schwanengesang, D957: by Schubert. Performed by baritone Boje Skovhus, accompanied by *pianist Helmut Deutsch*; 7.30pm; May 30; Jun 1
THEATRE
Burgtheater
Tel: 43-1-514442960
● Peer Gynt: by Henrik Ibsen. Directed by Peymann. The cast includes Augustin, Birkner and Dena; 6pm; May 30, 31

■ ZURICH

OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● Ivan Susanin: by Glinka. Conducted by Vladimir Fedoseyev and performed by the Oper Zürich. *Soloists include* Iano Tamar, Comelia Kallisch, Matti Salminen and Peter Straka; 7.30pm; May 30

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Squawk Box

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European Money Wheel

18.00
Financial Times Business Tonight

Ian Davidson

Difficult to contain

The UK's policy of non-co-operation with Brussels over the EU ban on British beef exports is a dangerous strategy

The growing conflict between Britain and the rest of Europe over bovine spongiform encephalopathy (BSE) – "mad cow disease" – started out as yet another ill-considered lurch by the government to appease the extremists on the anti-European right of the Conservative party. But this lunacy now seems to be infecting the whole of the British body politic, and risks carrying national policy well out of rational control.

Lamentably, the UK government's policy of non-co-operation in Brussels seems to be proving all too popular with British public opinion. The most recent opinion poll shows a significant majority of voters in favour of the policy of systematic disruption of European Union business. A near-majority supports retaliation against Germany and a large minority is even in favour of threatening to take Britain out of the EU if the beef ban is not lifted.

Until this week, the Labour party has been as studiously ambiguous on the BSE crisis as it has been on every other aspect of policy towards Europe. But yesterday morning Mr Robin Cook, Labour's foreign affairs spokesman, declared the party would support the government's disruption policy in Brussels "in the national interest", on the grounds that it was designed to help get the beef ban lifted.

The European ban on some minor beef by-products is likely to be eased in the near future. But the main ban on beef itself will remain in force for some considerable time. Unless something is done soon to halt the disruption policy, the damage to the national interest may become difficult to contain.

The root of the problem does not lie in some committee of veterinary experts in Brussels: it lies in the incidence of mad cow disease in British beef herds. So far, the UK government has not yet persuaded anybody that it has a convincing strategy for stamping it out. And the longer the government appears to be minimising what needs to be done to eradicate the disease, the longer the ban will stay in place.

I dare say nobody knows exactly what needs to be done to stamp out BSE – whether it means incinerating 1m cows or 2m. But it seems obvious that the rest of the EU would be much quicker to lift the ban if the UK government had adopted, right away and on its own initiative, a radical slaughter policy without cavilling, complaining and foot-dragging.

As it is, the damage has been done, and the other member states will be that much more exacting in their demands. And the longer the UK government clings to a minimalist posture on the BSE front, coupled with a policy of obstruction on all other fronts, the more certain it becomes that the others will judge the BSE issue on results, not on policy or promises.

In other words, the beef ban is highly unlikely to be lifted by the EU until there is clear evidence that BSE has been eliminated in Britain, or at least reduced to as low a level as in the rest of the Union. Which means that the ban will remain in force for many months to come, and quite likely well into next year.

Mr Jacques Santer, European Commission president, broadly indicated as much in a television interview at the weekend, in which he said it would be very difficult to set a timetable for lifting the ban in advance.

"That is very difficult to see," he said. "Lifting the ban cannot be a condition of restoring confidence. You have to get to the cause of the problem and, therefore, you have to eradicate the disease."

Unfortunately, the UK government seems to believe that there is an alternative strategy to the radical elimination of BSE. That strategy is a policy of denial, threats and a public relation campaign, coupled with a rising campaign of trouble-making in Brussels.

But the weakness of the strategy of obstructionism is that it is bound to fail in its declared purpose of lifting the beef ban. So what will Mr John Major do then? Will he merely subside after the easing of the ban on derivative beef products and simply declare a victory? That suggests, implausibly, that he will suddenly have discovered the courage, both to confront the Europhobes on his back-benches, and to face accusations of national humiliation.

Or will he raise the ante, and escalate the BSE controversy onto a new plane? In particular, will he translate the argument over beef into a broader quarrel between Britain and Europe?

It is said that the UK government considered, but then put aside, the option of withdrawing from the European Union's intergovernmental conference which is negotiating constitutional reforms of the EU. But there is still a clear threat that Mr Major will try to hijack next month's European summit at Florence if the beef crisis is not settled to Britain's satisfaction. If he does, he may find it difficult to contain the dangers to Britain of such a course of action.

Some cynics downplay, with derision, the significance of the government's current policy of obstructionism. After all, they say, Britain has long been at odds with its most important partners on most aspects of European integration; it is notoriously in a minority of one at the intergovernmental conference in opposing any further political integration of any kind. So there is not much new about the present tactic of non-co-operation.

This line of argument leaves out the real possibility that the other member states will finally lose patience with the UK. Until now, the common assumption has been that they would accommodate the British, at least for long enough to hope for a better understanding after the next election. But if John Major decides to escalate the crisis over beef into a crisis over Europe (as he may have to, for reasons of domestic politics), he may find that they will call his bluff.

In that case, the question will no longer be: "Will the other member states lift the beef ban?" It will be: "Does Britain want to stay or to leave?"

Pierre Thielemans

Blocking tactics: UK overseas development minister Baroness Chalker (right) in Brussels yesterday with EU commissioner Emma Bonino

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Talk to employees about the virtues of the EU

From Mr Richard Simmonds.

Sir, I am concerned that the captains of industry, who extol the virtues of the European Union, appear to do so only to their peers via the letters column in your newspaper. From their claims that 93 per cent of British business supports their view (Letters, May 28), they would seem to be preaching to the converted.

How much better it would be if they would address that information and more to their own employees. From many years' experience of touring both boardroom and shop floor of many of Britain's largest companies, I know that there is woeful ignorance in their workforces of the importance and potential of the market, and how it can be exploited to their mutual advantage.

To inform them better, particularly as to the extent to which their company and their jobs depend on the Union's market, is not a political argument but plain common sense and good business.

The French as a nation are no more and no less "pro-Europe" than are the British: but they have a far clearer idea of why they are in the European Union – to exploit it to their own advantage.

They do so while the majority of ill-informed Britons merely whinge – a habit that has become the malaise of our generation.

Perhaps the Confederation of British Industry should start to counter this plague by helping its members to improve their in-house communications.

Richard Simmonds,
Dyars,
Cookham Dean,
Berkshire SL6 9PJ, UK

Euro as soon as possible

From Mr Roland M. Soward.

Sir, Mr David Palmer's letter (May 18/19) draws attention to the fall in the value of the pound, starting from its level when the UK joined – and subsequently left – the ERM. From personal experience, I tend to recall the continuing debasement of the currency over a somewhat longer period.

When I took up an appointment in Belgium in 1963, the official rate of exchange was £1=BFr140. Now, the market rates the pound at around BFr48. So much for British national sovereignty over monetary policy!

Let us adopt the euro as soon as practicable.

Roland M. Soward,
"Lorise",
F-33580 St Vivien de Monségur,
France

Go from Lille

From Mr Pierre Léau.

Sir, I refer to your article on Lille, "Eurocommuter enjoys the age of the train" (May 28). First, I would like to remind you that it is not necessary to go to Paris to catch an aircraft. The Lille/Lesquin airport does service an increasing number of airports in Europe and north Africa, together with charter flights to the West Indies.

Second, English is not the only language "Lillois" are encouraged to learn. Dutch is also encouraged to attract mainly Dutch speakers from Belgium to shop there. It is always a good policy to know the languages of your neighbours.

Pierre Léau,
Rue de l'Association,
Brussels,
Belgium

Workers' rights have place in WTO rules

From John Evans.

Sir, Your editorial "Trade and rights" (May 24) is correct to point out that the OECD report on trade and labour standards finds no evidence that the respect of core labour rights restricts economic growth or damages competitiveness and that, if anything, developing countries would gain from respecting such rights.

However you are wrong to say that the implementation of core rights has no place in the World Trade Organisation's discussions. The multilateral trade and investment system has WTO rules governing intellectual property rights; it is developing rules governing investors' rights. It must have rules guaranteeing the basic rights of the workers.

An increasing number of "free trade" or "export-processing zones" in developing countries strip workers of their fundamental rights to join unions and bargain with employers. Efforts by some developing countries to respect basic rights are being undermined by negative policy competition between governments which wish to attract foreign investment through the suppression of labour rights. The OECD report shows that in the long term this may be misguided but this still does not stop it from happening.

The response is also becoming increasingly trade-focused with the growth of labour rights clauses in General Scheme of Preferences legislation, product labelling (such as the "rug mark" scheme), and consumer boycotts against products and countries. Establishing clear rules by which WTO members commit themselves to observing core labour rights would not be protectionist – it would remove one of the causes of protectionism.

The OECD report found a positive two-way relationship between trade and labour standards. This should give scope for the trade and labour communities to agree on a way forward at the WTO ministerial meeting in Singapore next December.

John Evans,
general secretary,
Trade Union Advisory Committee to the OECD,
26, Avenue de la Grande-Armée,
F75017 Paris,
France

Special dividends have their advantages

From Mr John Dodwell.

Sir, It was disappointing to read ("National Power", May 18) of Lex's bias towards institutional investors in his unfair attack on National Power's decision to pay a special dividend.

Special dividends have the following advantages over share buy-backs:

1. All shareholders are treated equally, a key point which I'd previously thought Lex supported (institutions do when it comes to pre-emption rights).
2. Cash in hand is better than a theoretical increase in the share price.
3. If there is surplus cash, let the directors return it to shareholders so they can consider how to spend it. How quaint that Lex regards it as a fundamental point that directors are best able to decide if their shares are a good investments.
4. The above points are of fundamental importance and should not be put aside because of tax problems. Does Lex believe the tax tail should wag the commercial dog?

John Dodwell,
director,
Rolandon Securities,
Painters Hall,
9 Little Trinity Lane,
London EC4V 2AD, UK

Simple choice that would resolve beef problem

From Mr Steven J. Carter.

Sir, In a pragmatic attempt to resolve the current furore over mad cow disease, might I suggest a liberal mix of "let the market decide" and *caveat emptor*.

Surely it should not be beyond the highly paid and long-lasting efforts of the government and Britain's partners in Europe to reach an agreement that we should be able to export our beef products freely, subject, of course, to some clear marking (for example, "Contains direct or byproducts of beef produced in the UK"). Such a compromise would free us from the current sabre-rattling and let us revert to the two principles noted above.

Steven J. Carter,
managing director,
Sarven Consultants,
Cherry Trees,
Lower Ham Lane,
Elstead, Surrey, UK

Technology · Michael Skapinker

Computers change course

New systems are being developed to control increasing congestion in Europe's skies

We are flying above Wiltshire in southern England when the screen in the cockpit indicates that air traffic control wants us to change course slightly. Mr Bill Ovel, the pilot, takes advice from his on-board computer.

The computer advises against the change. It will require the aircraft to descend too quickly. We will stick to our existing route. "My system won't allow itself to be bullied by air traffic control," Mr Ovel says. Ground control will have to change someone else's route instead.

Throughout the exchange, Mr Ovel and the air traffic controllers in Bournemouth have not spoken a word. All communication has taken place between computers on the aircraft and those on the ground.

The aircraft, a Bac 1-11, is 32 years old but it is certainly not out of date. Most of the seats have been removed, to be replaced by some of the most advanced aircraft computer systems in the world. The aircraft, which belongs to the UK Defence Research Agency, is a flying laboratory, helping European air traffic organisations devise ways of coping with their increasingly congested skies.

The aircraft is part of the awkwardly named Programme for Harmonised Air Traffic Management Research in Eurocontrol (Phare). The programme, which began in 1989 and is scheduled to run until 1998, is a collaborative venture between Eurocontrol, the 21-member state organisation which helps co-ordinate European air traffic control, and air traffic control authorities in the UK, France, Germany and the Netherlands.

Air traffic in Europe is expected to double over the next 20 years. This is alarming news for airlines and travellers who are already spending far too long waiting for their aircraft to take off or land.

The Association of European Airlines said this week that 18.3 per cent of its members' flights inside Europe suffered delays of more than 15 minutes in the first three months of this year, compared with 14 per cent in the first quarter of 1995.

One way to overcome the problem would be to build more airports and runways. Environmental opposition, however, makes this difficult in Europe.

Instead, Phare aims to use technology to make better use of existing capacity. The researchers at Phare believe that many airline hold-ups could be eliminated if air traffic controllers were better able to predict exactly when aircraft were going to arrive at an airport. They say that new technology could also be used to increase controllers' productivity, allowing them to handle increasing numbers of aircraft without compromising safety.

Central to the Phare programme is allowing aircraft to plan their own flight trajectories. These will be "four dimensional": this means that as well as being able to predict their latitude, longitude and altitude – as aircraft can do today – the new on-board flight management systems will be able to predict the time aircraft will reach particular points.

> Computer planning will allow controllers to know where aircraft will be in 20 or 30 minutes rather than only a few minutes, as happens now

These flight trajectories will then be transmitted, via a data link, to ground control, which will use computers to check whether the planned trajectory conflicts with that of any other aircraft and to suggest changes if it does. This improved computer planning will allow controllers to know where aircraft will be in 20 or 30 minutes rather than only a few minutes, as happens now.

The first phase of the Phare project, co-ordinated by the UK's National Air Traffic Services, is examining how these systems will operate during flight.

The second phase, to be managed by German researchers, will look at how the technology can be used as aircraft approach and leave airports. French and Dutch air traffic control will be involved in the third phase, which will integrate the work of the first two.

Central to the first phase of the project is the development of a new experimental flight management system, which is already being tried out on the Bac 1-11. As well as being able to generate a four-dimensional flight path, the system takes into account meteorological information and assesses how the weather will affect the flight.

The planned route is then sent to the ground controllers' computers. The Phare researchers are developing several software tools to enable ground controllers to decide whether the proposed trajectory is safe. They include a conflict probe, which checks whether the trajectory collides with those of other aircraft a problem solver, which offers the pilot alternative trajectories in case of conflict and a flight path monitor, which tells the controller if the aircraft deviates from the agreed trajectory.

If there is a conflict, air traffic control transmits the obstacles standing in the way of the proposed trajectory and asks the pilot to come up with an alternative. The pilot taps the new data on to a touch screen in the cockpit, along with information about the state of his own aircraft, such as how much fuel he has left. It was at this stage that the flight management system told Mr Ovel, the test pilot, that the Bac 1-11 could not handle the changes that air traffic control was proposing.

If the suggested new trajectory is feasible for the aircraft, the pilot transmits it back to air traffic control. Down at the ground in Bournemouth, air traffic controllers from several countries are trying out the new system. The Bac 1-11 is the only live aircraft involved. The other aircraft on their screens are simulated as part of the exercise.

The controllers work in pairs. One deals with the computer-transmitted information. The other makes use of the new software, but communicates with pilots by radio. This is because not all aircraft will have the new technology when it comes into effect in the next century. It is also because even aircraft with the new technology will revert to traditional voice communication in an emergency.

The controller checking a trajectory sees a red area appear on the screen if there is an apparent conflict with other air traffic. He or she moves an on-screen cursor until the area turns yellow, indicating a safe trajectory, which can be suggested to the cockpit crew.

As well as providing more accurate route information, Mr Ovel thinks a reduction in voice communication will make flying safer as it will reduce the scope for misunderstanding or language difficulties.

But will pilots enjoy using the proposed new system? "If you ask them, most pilots would prefer spinning upside down in a Spitfire," he says.

FINANCIAL TIMES
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Wednesday May 29 1996

Israel decides its future

Israelis will today decide whether or not they are ready for the concessions needed to live in peace with their Arab neighbours. For that is the meaning of today's two votes, one to elect a prime minister, and the other for the Knesset or parliament which will determine the make-up of his coalition.

If they are ready, there is a reasonable chance the Middle East can move forward in its transition from war and backwardness to detente and development. If they are not, there is every chance the region will relapse into conflict. That makes this election an historic event for Israel and the Arabs. The vote looks evenly split.

The twin issues of peace and security have dominated the campaign. Mr Shimon Peres, prime minister of the Labour-led coalition and strategist of the peace with Jordan, the peace process with the Palestinians and negotiations with Syria, has striven to appear as a hawk. His rival, Mr Benjamin Netanyahu of the right-wing nationalist Likud coalition, has paraded as an armoured dove.

Mr Peres, who is 72, has projected himself as the statesman who will negotiate a "strong peace", arguing that military might alone cannot deliver what Israelis most want: security. Like Mr Yitzhak Rabin, who was assassinated by an Israeli religious fanatic last year, the Labour leader believes the Islamic fundamentalism threatening the region can only be defeated by Israel working with its neighbours.

The 46-year-old Mr Netanyahu has countered with the politics of fear and a strategy for a garrison state. He says he is the man to provide peace together with the security that Labour has failed to deliver. But he has not explained how he will make peace while maintaining Israel's occupation of Syria's Golan Heights, southern Lebanon, swathes of the Palestinian West Bank, and Arab east Jerusalem – the root causes of continuing violence.

The campaign has shown little of the ebullience of Israeli democracy, partly because it has been in everyone's calculations that one more suicide bombing by the Palestinian Islamist group, Hamas, could decide a tight race in Likud's favour.

Likud thinking, moreover, has evolved. Mr Netanyahu has grudgingly accepted that he cannot change the 1993 Oslo accords, which led to interim self-government for the Palestinians. But, if elected, he intends to ensure that talks on a permanent settlement go no further than autonomy. He would not countenance a Palestinian state, much less one with its capital in east Jerusalem; the Israeli army would be back in the self-rule areas; and Jewish settlements would expand in the West Bank. Mr Peres has also trimmed. He says he will never relinquish Israel's (internationally unrecognised) control over the whole of Jerusalem, for example.

If the polls are right, Labour could govern without the fundamentalist religious parties, which would certainly pull a Netanyahu government towards uncompromising positions.

Despite the political cross-dressing, therefore, Israelis have a clear choice. With Mr Netanyahu they will get a return to the irredentism of Greater Israel, a freeze on the peace process and almost certain renewed confrontation. A vote for Mr Peres offers no guarantee of peace, only that peace will be pursued.

Yeltsin's promise

This week's agreement between President Boris Yeltsin and Mr Zelimkhan Yandarbiyev, the Chechen separatist leader, has brought a badly needed ray of hope to the bloodiest of the former Soviet Union's war zones. After 17 months of unspeakable misery, in which more than 30,000 people have been killed and the ragged condition of the Russian forces painfully exposed, both sides may finally have accepted that the war is unlikely to end in an outright military victory. However belated, an accord based on this hard reality would help to wipe out the largest black spot in the record that Mr Yeltsin is defending in next month's elections.

Whether this really is the beginning of a compromise, based on humanity and common sense, or simply a cynical pre-election ploy, remains to be seen. A trail of broken ceasefires has left most observers of the conflict justifiably sceptical. Every previous effort, including the promising deal struck last July, has been sabotaged by the Kremlin's war party, a shadowy clique of officers who, in December 1994, goaded Mr Yeltsin into launching Moscow's biggest and cruellest military operation since the invasion of Afghanistan. This clique appears to see advantage in the prolongation of a brutal partisan conflict. It provides opportunities for war profiteering and justifies a high military budget.

The best reason for hoping that this week's accord will stick is the emphatic personal endorsement of Mr Yeltsin. By receiving his adversary at the Kremlin, the president has rebuffed the war party and stepped back from his previous insistence that the leaders of the Chechen rebellion are criminals, not negotiating partners. Another good sign is the prominent role in the deal played by the prime minister, Mr Victor Chernomyrdin.

While no supporter of the Chechen cause, the prime minister has always seen that a well-timed compromise will be needed to secure Russia's main strategic goal in the region: control of the oil pipeline from the Caspian to the Black Sea via Chechnya.

If Monday's accord succeeds, western governments will have at least two grounds for satisfaction: the hope of some alleviation of Chechnya's human misery, and the prospect of earlier access to energy from Caspian. But if the sceptics are right, and Russia is still bombing Chechen villages in a few months' time, the west will have every right to condemn Mr Yeltsin, assuming he is still president. Having personally backed the ceasefire, Mr Yeltsin should be held responsible for implementing it with better faith than Moscow has shown up to now.

Chips galore

Texas Instruments' claim to have developed a technology capable of inscribing 125m transistors, or computing elements, on a thumbnail-sized slice of silicon is remarkable chiefly because the technique is commonplace.

The US company is using the same photolithographic methods – writing on stone with light – which have dominated semiconductor production for 37 years.

TI has refined the technique enormously to be able to create transistors only 18 hundred millionths of a metre across, almost 30 per cent smaller than those in today's most powerful chips.

But the implication is clear. With even more powerful techniques such as X-ray lithography and electron beam epitaxy in the wings, there is a long way to go before semiconductor manufacturers' attempts to build yet more powerful chips are frustrated by the laws of physics.

A prediction three decades ago, by Mr Gordon Moore, chief technologist at Intel, that silicon components would double in complexity and halve in price every two years has yet to be proved false.

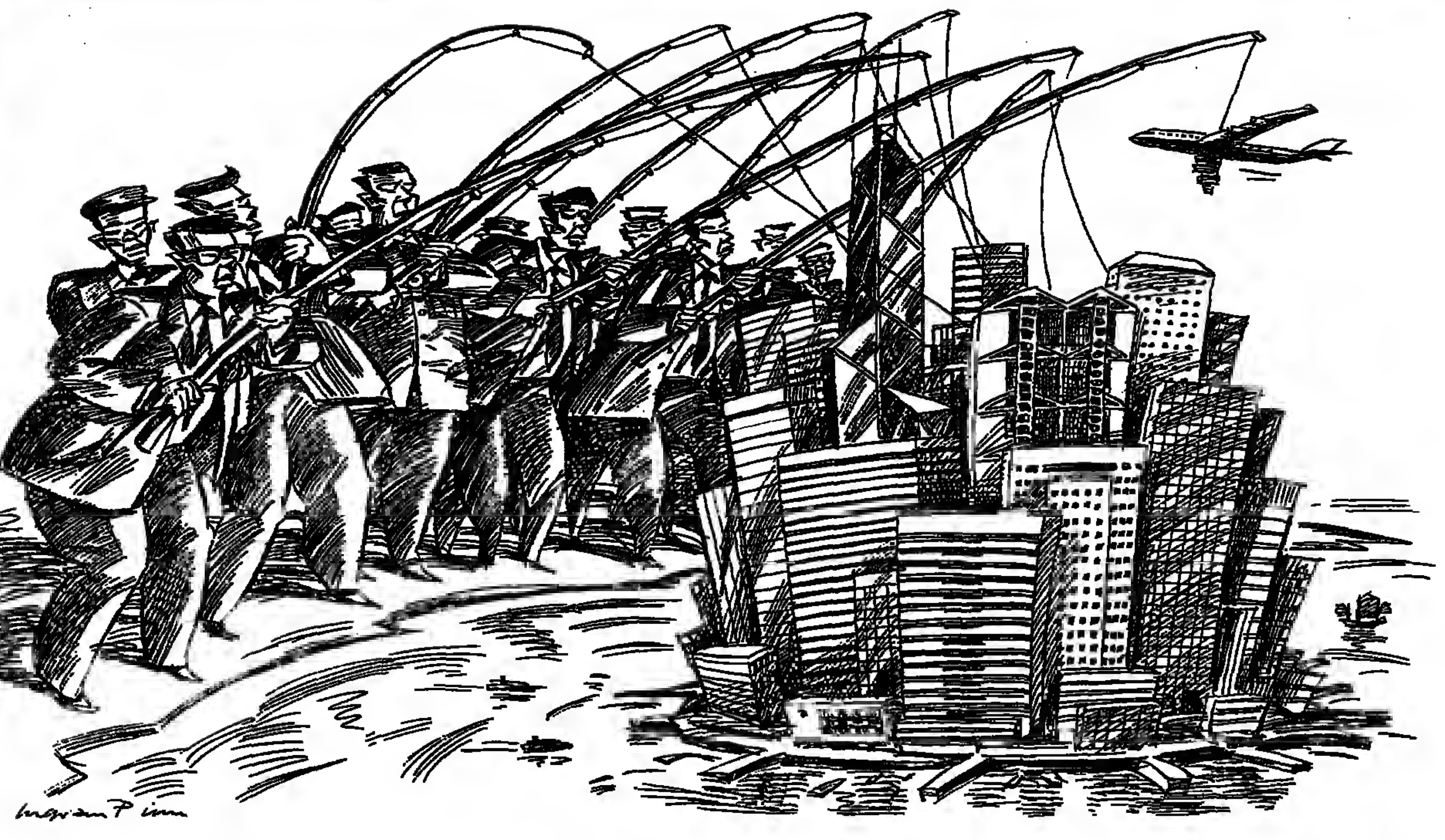
As circuits become smaller, they operate faster and generate less heat and interference than larger electronics of equivalent complexity. Today's microprocessors contain up to 5.5m transistors compared with 3,500 on Intel's first commercial microchips in 1971. TI's technique promises microprocessors with 20 times the power of today's chips at no greater cost.

The consequences for society of this continued rise in complexity are perhaps not fully grasped even in an age in which computers are taken for granted. The latest technology promises ubiquitous, tiny packages of electronic intelligence. Today's model is the smart card and the tiny videocamera. Tomorrow, tiny processors will be embedded in jewellery, spectacles, buildings and furniture.

The increasing cost of chip fabrication plants and the difficulty of developing reliable software to program these microprocessors, however, are likely to moderate progress.

A modern chip plant now costs more than $2bn, twice the cost of three years ago. Only the very largest makers such as Intel can afford such investments.

Progress in software is slow and shows little signs of accelerating. Programming a microprocessor with more than 100m computing elements is a daunting prospect. Widely distributed computer power will confer substantial advantages on society; but it will create new ethical problems for society, such as the individual's right to privacy, which may be at least as difficult to master as the technology.



Fishing for complements

Investors from the Chinese mainland are forming alliances with Hong Kong companies ahead of next year's handover, says **John Ridding**

Seismic shifts are under way in Hong Kong's business world in the run-up to next year's handover to China, as mainland companies increase their presence and form partnerships with the territory's dominant commercial groups.

Earlier this month, the latest of these opheavals came in the aviation sector, as two mainland companies took big stakes in Hong Kong's airlines. Each step raises the questions of how far the shifts will extend, who will be the winners and losers, and whether the transfer of sovereignty will tilt Hong Kong's balance of commercial power towards China.

"The aviation deals showed that China intends to play a very active commercial role in Hong Kong," says Mr Gary Coull, chairman of Crédit Lyonnais Securities Asia, the regional arm of the Frencb state-owned bank.

Under the terms of the deals, Citic Pacific, tbe Beijing-backed investment group, will raise its stake in Cathay Pacific, the territory's *de facto* flag-carrier, from 10 per cent to 25 per cent. The UK's Swire Group will reduce its holding in the airline below 50 per ceot. At the same time, CNAC, the commercial arm of China's aviation regulator, will become the biggest investor in Dragonair, Hong Kong's second airline jointly owned by the Swire Group and Citic Pacific.

"These are landmark agreements," says one investment banker. "They confirm China's business ambitions."

Tbese ambitions are already apparent. Mainland-backed companies sucb as Citic Pacific and China Resources have emerged as powerful shareholders in blue chip companies and business projects as some of the territory's biggest businesses. In the financial sector, the Bank of China has established itself as a tough competitor in terms of pricing and marketing. "They are a force to be reckoned with," says Mr Alexander Au, chief executive of Hang Seng Bank, one of Hong Kong's biggest financial institutions.

Many of the largest property and infrastructure projects, from ports to shopping plazas, now hava a mainland company in the consortium. For example, a HK$40bn (US$5bn) contract awarded in March by the Mass Transit Railway Corporation to develop a site on the territory's harbour inclnded the Bank of China alongside Hong Kong Chinese partners such as Sun Hung Kai and Henderson Land.

The new project will push the skyscrapers of the Jardine group, one of Hong Kong's original business empires, from the waterfront. Ambitious even by Hong Kong property standards, the project reflects the ambitions of Chinese interests and the big Hong Kong Chinese groups – and illustrates the lower profile of once-dominant UK-controlled companies.

China's business interests in the territory appear set to grow further. "I expect that momentum will gather after the handover," says the managing director of one of Hong Kong's biggest conglomerates.

Mr Coull at Crédit Lyonnais argues that "major changes in corporate ownership are coming". Every industry will end up with some substantial Chinese equity interest. He also predicts the number of companies in Hong Kong with capital from China, will continue to rise steadily.

It is a natural process in the territory'a business development, according to Mr Gilbert Wong of the Hong Kong university business school. He lists a succession of phases, with the Hong Kong Chinese tycoons such as the late Sir Y.K. Pao and Mr Li Ka-shing ending the dominance of British-controlled companies from the late 1970s and the arrival, from the mid-1980s, of mainland Chinese interests.

However, there are sharp divisions of opinion over the way this penetration will occur and the implications for Hong Kong. Some warn of a threat to the territory, arguing that China will ride roughshod over established commercial interests and practices.

"The Cathay deal is like forced nationalisation," says Mr David Newman, senior lecturer in social sciences at Lingnan University in Hong Kong. He says the Swire Group was pressured into reducing its stakes in Cathay and Dragonair to prevent CNAC from setting up a carrier which would have the backing of China's aviation regulator.

According to this view, Chinese companies will press for stakes in Hong Kong business on their terms. "They will come knocking on the door and demanding a piece of the action," says Mr Newman. "I don't rule this out for any business where a mainland entity wants to be involved. Any area involving contracts or political connections will be vulnerable."

Such a gloomy prognosis is rejected by Cathay Pacific and by many in the business community. "Bullies don't pay good money," says a senior Swire Group executive, referring to the HK$6bn paid by Citic Pacific to raise its stake in the airline.

"This is oot about domination but about deals," says ooe of Hong Kong's leading tycoons.

For Mr Simon Murray, head of Deutsche Bank in the Asia Pacific region and a former deputy to Mr Li Ka-shing, the aviation agreements are a positive step. "They confirm that China is looking for partnerships, and is willing to do deals," he says.

There are also benefits in partnerships with Chinese companies for Hong Kong businesses which want to mainland expansion. The Swire Group's alliances with Chinese companies have helped it negotiate property and industrial projects in China. For Mr Wong, this demonstrates the "powerful combination of Hong Kong capital and expertise and mainland markets".

And an important benefit of this dealmaking is that it gives China a bigger financial stake in the territory. "It strengthens their interest in Hong Kong's prosperity," says Mr James Tien, chairman of Hong Kong's general chamber of commerce.

However, even those who stress the benefits of China's increased commercial presence in Hong Kong accept that significant questions remain. For example, partnerships on the Swire Group formula must be shown to work. Some believe CNAC will try to raise its 36 per cent share in Dragonair to build the airline into a long-term competitor to Cathay.

"Having smelled blood the shark could come back for more," warns a senior member of one senior executive.

The aviation deal also emphasises the complex factional forces behind China's business interests which could create destabilising competition in the territory. In seeking a stake in Hong Kong aviation, CNAC was partly motivated by rivalry with China's regional carriers and with Citic Pacific, which had positioned itself as China's representative in Hong Kong's airline sector.

"Wa are looking at a situation where competing Chinese interests will be seeking their slice of Hong Kong," says Mr Newman. "That could turn this place into a battleground."

However, many observers believa that established mainland interests in Hong Kong could themselves suppress such tensions. Citic Pacific has been as active as its local counterparts in warning Beijing of the risks of a stampede into Hong Kong. Since Mr Larry Yung, Citic Pacific's chairman, is a son of China's vice-president, such warnings reach important ears.

And although many of the territory's tycoons may be tempted to use their sway to win deals at home, they have vested interests in avoiding a free for all which could undermine established franchises in the management and ownership of Hong Kong's infrastructure, transport and utilities.

"We are all dependent on franchises and the rules of the game," says a senior executive at one of the territory's conglomerates. "If one franchise were breached they would all be vulnerable."

He sees different companies and partnerships emerging as franchises are awarded and new projects are developed. Chinese groups will play an expanding role, reinforcing the upheaval that is already under way.

As Mr Coull says: "Business will be different, more political and more unpredictable. And sometimes it will be rough. There will still be a lot of money to be made, but there will be a lot of new people making it."

· OBSERVER ·

Different league

■ The Milanese have just learnt – from one of those reports that likes to predict such things – that their city will be one of Europe's most dynamic over the oext decade. The question is wbether Marco Formentini, the city's ebullient mayor and a senior Northern League politician, will be there to enjoy it all.

The federalist League may have emerged as oorthern Italy's largest single party in last month's general election. But in Milan, Umberto Bossi, the League's leader, was beaten into third place by Silvio Berlusconi, leader of Forza Italia, and the former communist PDS.

With one year of Formentini's term to run, the League is oow in a minority on the council. What's more, it has been rocked by a corruption scandal in recent weeks – exactly the sort of thing League councillors said they would wipe oot wben elected in 1993. One councillor has already resigned, after allegations that she promised a council contract to clients of her law firm.

Formentioi himself somebow manages to remain irrepressibly optimistic. He puts the extensive domestic press coverage of the scandal down to anti-League sentiment among certain media organisations "which detest the League". As for his own pobtical chances, he lists an improbable number of infrastructure projects which he wants to push through in the next 12 months, and pooh-poohs the risk that Forza Italia might sweep the League out of the council chamber. "Forza Italia was born six months after my election," he grins. "It'a possible it will die six months before the next poll."

Seen, and heard

■ Last month, the King of Sweden celebrated his half-century. Today it is the turn of the king of Swedish business, Peter Wallenberg, who celebrates his three-score years and ten. He will not fill the streets with cheering crowds, but the occasion is not going unmarked.

Dagens Industri, the energetic Swedish business daily, ran a 12-page supplement on the great man yesterday with no less than 20 pictures to enliven an account of the 140-year-old empire. The tabloid Expressen devoted three pages to an interview with "Pirre", as he is known to his friends – also accompanying it with a big colour portrait.

For most of his days, Peter has managed to follow the family motto Esse Non Vidare (To Be, Not To Be Seen) and to keep a low public profile – as do his chosen joint successors, his son Jacob and nephew Marcus. But the rotund family leader is well-known in Stockholm's smart set for his impish sense of humour and his liking for a whisky and a cigarette.

His own father, the legendary Marcus Wallenberg, once remarked how Peter was "good-natured, but not so talented". But the fact is the Wallenberg empire is stronger now than it has even been. Peter has something to toast.

Powering down

■ So what exactly is Paul Desmarais up to? That's one of the more tantalising questions raised by Conrad Black's move last weekend to take control of Southam, Canada's biggest daily newspaper chain.

Black bought his shares from Power Corporation, the secretive Montreal-based conglomerate controlled by the Desmarais family. Power then used the C$294m proceeds to buy back some of its own shares.

It has not escaped Power wstchers, however, that the exit from Southam marks yet another move by the Desmarais family to lower its exposure in Canada. Excluding a C$700m cash hoard, about a third of Power's assets are now in Europe and another third in the US. Its European flagship is Pargesa, the media, energy, construction and financial services group jointly controlled with Belgium's Frère family.

Desmarais, who is very much the doyen of Montreal's business community, has lately appeared none too confident about Canada's prospects. He spoke out strongly at Power'a recent annual meeting about the uncertainty created by Quebec secessionists. Rumours, dismissed by a Power official, have surfaced that he plans to sell his country estate on the north shore of the St Lawrence River, and that his two sons, who took the reins at Power earlier this month, are thinking of buying a place in Toronto – just in case.

Uneconomic

■ One of the main reasons to worry about the return of Communists to power in Russia is the prospect of wrestling with the tortured linguistic convolutions of Soviet-minded economists.

Tatyana Koryagina, one of the co-authors of the communists' economic programme, sbows formidable promise at this dubious art. "The challenge is to effect a synthesis of the positive aspects of neo-classical theory based on the positive aspects of economic liberalisation and Keynesian ideas and the ideas first proposed by Marx and developed by practitioners in Russia which make it possible for the state to play a positive role in managing the economy..", as she put it yesterday.

It makes the musings of Gordon Brown, UK shadow chancellor, on endogenous growth theory seem positively pedestrian.

The Financial Times

100 years ago

The Cotton-spinning Industry

We have heard moch of late about the rapid development of the cotton-spinning industry in India and Japan, but it appears from a recent Foreign Office report that the manufacture of cotton cloth is assuming yearly larger proportions in the Southern States of America also. With an ample supply of the material et their very doors, plenty of water-power, cheap labour and suitable climatic conditions, there is no reason why the Southern States should not develop a very large cotton-spinning industry, and already some of their mills rival, we learn, those of the North.

50 years ago

German Reparations

The U.S. decision to stop stripping machinery from the American zone in Germany for the payment of reparations, although it has not yet been followed by a similar British decision, is a step of major importance. The ostensible reason is apparently the failure to reach in Berlin an agreed import and export programme covering the whole Reich. But it is only one of the signs now apparent that the U.S. is worried – and annoyed – over the failure of the Four Powers to treat Germany as an economic unit. The Potsdam agreement, in fact, seems to be dying.

FINANCIAL TIMES
Wednesday May 29 1996

President sees chance of political advantage

Yeltsin visits Chechnya to tell troops 'you won'

By John Thornhill in Moscow

Mr Boris Yeltsin, the Russian president, yesterday carried out a pre-election promise to visit the war-ravaged region of Chechnya as he sought to gain political advantage from a peace agreement signed in the Kremlin.

Mr Yeltsin spent four hours visiting Russian troops in Chechnya telling them they had crushed a "mutinous regime" and secured victory in the bloody 17-month conflict.

"You have finally won," he claimed at the heavily-protected airport in Grozny, capital of the southern Russian region.

But his triumphalist tone was tempered with more moderate promises to rebuild the devastated republic. "This is a land of plenty. It is waiting for working hands," he said.

The signing of a peace agreement on Monday with Mr Zelimkhan Yandarbiyev, the Chechen leader, and Mr Yeltsin's subsequent trip to Chechnya will give considerable momentum to the president's re-election campaign. It will also help pacify those Russian liberals who have withheld support from Mr Yeltsin and fiercely condemned his conduct of the war.

Mr Yeltsin's security advisers had publicly warned the president not to visit Chechnya because of the risks involved. But the president, fond of the dramatic gesture, overrode their advice, while taking the precaution of keeping Mr Yandarbiyev in Moscow.

Wrong-footed by the move, Communist party officials described Mr Yeltsin's visit as a "populist step" taken under the indirect protection of Mr Yandarbiyev. But they said Mr Gennady Zyuganov, the Communist party leader and Mr Yeltsin's chief political rival, was likely to visit Chechnya after the first round of elections on June 16.

Mr Yandarbiyev, who succeeded the assassinated Mr Dzhokhar Dudayev last month as Chechen leader, held further talks in Moscow yesterday and returned home last night. While the two sides have agreed a ceasefire from midnight on Friday, an exchange of prisoners, and a partial withdrawal of troops, they have not yet tackled the outstanding problem of the region's status, which lies at the heart of the conflict.

Chechen leaders continue to insist on full independence, while Mr Yeltsin has vowed that the republic will never be allowed to leave the Russian Federation.

Mr Mintimer Shaimiev, president of the mainly-Moslem Russian republic of Tatarstan who has won a large measure of autonomy from Moscow and has tried to mediate in the dispute, said the peace agreement marked a turning point in the conflict.

"But the parties have much to do to ensure the outline of a peace process sketched in the Kremlin brings a real result," he said. "It is much easier to start a war than to finish it."

Red flag flies high, Page 2
Editorial Comment, Page 13

British opposition spells out pro-Europe agenda

By James Harding in London

Britain's opposition Labour party yesterday set itself apart from the current vogue of Euroscepticism in British politics, announcing an activist agenda for the European Union.

The policy paper, titled "A business agenda for Europe", is based on Labour's belief that "the EU is vital to the future prosperity of Britain", Mr Robin Cook, the party's foreign policy spokesman, said.

Labour's position on Europe is of particular interest because national elections must be held in Britain within a year, and recent opinion polls indicate that the party is leading the ruling Conservatives by more than 30 points.

Labour's proposed reforms include an extension of the single market, greater competition powers for Brussels and a new EU fund to improve competitiveness and combat unemployment.

However, the clear pro-European tone of the Labour policy document was almost eclipsed by the confusion that continues to surround Labour's equivocal approach to the UK government's policy of non-co-operation in the EU.

A week after Mr John Major, UK prime minister, launched his initiative to disrupt EU business in retaliation for Europe's refusal to lift the ban on beef and beef products, Labour continued to shy away from a clear statement on the policy.

Mr Cook said Labour "will support the government policy of non-co-operation in the national interest" provided that Mr Major observes three conditions – consultation with Labour, consultation with business and avoidance of any language of jingoism and xenophobia.

Labour officials privately admit that while the government's policy has yet to show that it can persuade the UK's European partners of the safety of British beef, it has proved a success in one respect – it has wrong-footed the opposition.

One senior Labour source said that it was impossible to take a fiercely critical stance because the debate would then degenerate into: "Who stands up most for British interests – Labour or the Tories?"

Nevertheless, Mr Cook said the UK should not be distracted by the beef crisis from the benefits of EU membership and the need for further improvements.

In particular, he referred to the scope to extend the single market "to cover new sectors such as energy, telecommunications and biotechnology".

"The single market project has not been completed and we must not allow other preoccupations to distract us from the task of developing it further," he said.

Beef protest, Page 9

Confrontation in Albania

Continued from Page 1

-sion said results were in from 78 of 140 parliamentary districts yesterday. The Socialists won five seats, an ethnic Greek minority party one, and 10 would go to second round balloting next weekend, it said. The statement implied but did not state outright that Democrats won the 62 other seats.

Mr Berisha's government has received significant support from Europe and the US, which expect that Albania will play an important role in maintaining regional security. But the violence yesterday has complicated those relations.

Opposition leaders described how they had been hauled off to police cells or beaten. His shirt pulled up around his shoulders, Mr Servet Pellumbi, the Socialist leader, displayed long red bruises on his back. "This is dictatorship," he said.

Socialist leaders and their supporters had taken refuge in the party headquarters. Telephone lines were cut and Socialist and other opposition party members were forced to send messengers through the police blockade to bring news of the unfolding events along with cigarettes.

Three EU economies are revised upwards

By Gillian Tett in London

The economies of Belgium, Portugal and Greece are about 20 per cent larger than current figures suggest, according to European Commission statisticians.

Eurostat, the statistical wing of the Commission, is preparing revised, harmonised data to take account of this problem, which occurs partly because tax evasion and other semi-legal economic activity is not being assessed correctly.

Upward revisions could make it easier for Belgium and Portugal to join in economic and monetary union by meeting the Maastricht criterion for deficits and debts.

However, since Eurostat does not plan to publish the revised data for at least two years, the figures cannot be used for judging which countries qualify for the first wave of a single currency, because that decision will be taken in early 1998.

The revised data is likely to boost several countries' gross domestic products, leaving the deficit and debt as a proportion of GDP much smaller.

Belgium, for example, would probably meet the Maastricht criterion that stipulates that a deficit be no more than 3 per cent of GDP in 1997, if its overall economy was 20 per cent larger.

Since the EU budget contributions are also calculated according to the size of the economy, the revisions could also mean that Greece, Portugal and Belgium need to pay more to Community funds.

The Eurostat study of the underground economy is one part of a broad attempt to harmonise figures in the region.

Although it does not attempt to measure clearly illegal activity like prostitution, it is engaged in a study to measure informal economic activity, such as market trading.

Italy revised its data about 10 years ago to include an estimate for such an informal sector – a change which increased the size of its economy by about 17 per cent.

Officials suspect that if these changes are applied across the continent, the EU economy could be up to 10 per cent larger than currently shown.

India's small parties set to rule as BJP quits

Continued from Page 1

has among its leaders some of the bitterest critics of the economic liberalisation programme initiated by Mr Rao's government in 1991. "We are banking on the Congress party to keap the United Front on a leash as far as reforms go," an analyst with a Bombay-based investment company said. Congress warned on Monday that it would withdraw support of the United Front if the reform process were reversed.

"We don't expect a reversal of reforms as much as a go-slow and no earthshaking moves as the new government tries to find its feet and accommodates the aspirations and demands of diverse groups, all of which are sure to be pulling in different directions," the analyst added.

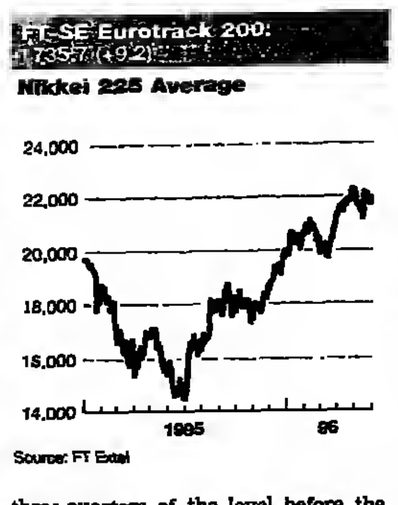
THE LEX COLUMN

Eating Humboldt pie

The shocking losses at Klöckner-Humboldt-Deutz are a salutary reminder that corporate Germany's quest for greater openness has a long way to go. Admittedly, high-level fraud is difficult to detect or regulate against. But following disasters at Metallgesellschaft and Gildemeister and the Jürgen Schneider scandal, the status quo no longer appears acceptable either. Once again, the control exercised by bankers, auditors and Germany's two-tier board system has proven woefully inadequate.

At KHD, it appears that divisional management was able to hide losses "in tbe bundreds of millions of D-Marks" across two aodited year-ends. The débâcle is just as embarrassing for Dentsche Bank, which owns 48 per cent of the engineering group and is its biggest creditor, but which spotted nothing untoward throughout last year's protracted refinancing. This is despite the fact that Humboldt Wedag, tbe plant engineering subsidiary responsible for the losses, booked a suspiciously large number of contracts in 1994/95 – at a time when KHD's core diesel engine business was in trouble and the group was talking to its banks. It now looks as if these contracts are the source of the trouble.

To make the best of this mess, Deutsche Bank should refuse to bale out KHD yet again. That would almost certainly lead to the closure of the plant engineering side. The engines division, with a strong brand name and good technology, might survive. Snch a break-up would mean the end of one of Germany's oldest engineering names. But it would send a clear signal of tha bank's willingness to exercise greater rigour.



Source: FT Extel

Japan

Japanese corporate profits are rising faster than at any time in the last seven years. On average, the operating profits of Japan's top quoted companies have risen by 25 per cent in the past year, on meagre underlying sales growth of 2 to 3 per cent. But can this translate into another sharp rise in share prices? Already, their success has prompted a 54 per cent rise in the Nikkei 225 from its 1995 low of 14,295 last July. It has, of course, been a rather less enjoyable ride for US investors, who have seen nearly two fifths of that gain wiped out by the yen's fall against the dollar. Then again, currency weakness is one reason wby Japanese exporters have done so well recently.

Companies' forecasts of sligbtly slower profits growth in the coming year would bring earnings back to three-quarters of the level before the 1989 collapse of the bubble economy. But prospective price/earnings multiples – inclnding financials – are already well above pre-bubble levels, at an average of just under 72 times for the Nikkei 225. All this makes the Japanese market look expensive, especially given the spate of equity offerings expected later this year from banks and the state sector.

But there are several reasons for thinking that it is still too early to take profits. First, this earnings recovery is not like previous ones. It is only just beginning and should last longer, because it owes as much to cost-cutting and efficiency improvements as to the cyclical npturn. Second, having cut costs, Japanese companies' profits are more sensitive to increasas in turnover. Everything now depends on how rapidly the economic recovery feeds through into higher sales.

Emerging debt markets

Low real interest rates in the developed markets and improving economic fundamentals in Latin America and Eastern Europe have finally persuaded investors to put the dire performance of the emerging debt markets in 1994 and 1995 behind them. What is more, the rally so far this year has taken place despite the weakness of US Treasuries. Typically, emerging markets are highly sensitive to the US market – in fact, it was the surprise about-turn in US interest rate policy in 1994 which sparked their initial reversal of fortune. But the link appears, for the moment, to be broken: WestMerchant's emerging debt index is up 10 per cent this year, defying a one percentage point rise in the US long bond yield. Still, the greatest danger with emerging markets has always been to think they have emerged. So far, they have managed to buck a bearish trend in Treasuries, but a sudden, larger-than-expected rise in US rates would be a sterner test, and one they would probably fail.

Barring such a shock, there is scope for the rally to continue. Despite the narrowing of the yield gap between emerging markets and Treasuries this year, it is still mucb wider than before the Mexican crisis at the end of 1994. And there is more good news on the horizon: Venezuela, for example, is close to signing a deal with the International Monetary Fund. Eastern Europe is starting to look expensive, but there is plenty to go for as Latin America emerges from recession.

UK utilities

Southern Water seems to be playing its suitors off against one another remarkably deftly. Certainly, Scottish Power's £1.5bn opening bid looks ostentatiously generous. As a multiple of cash flow, the enterprise value implied by the price is already in line with average successfnl bids for regional electricity companies. And discounted cash flow valuations suggest Scottish Power would have to work hard to extract as mucb value from Southern Water as it is offering for it. It may stand a respectable chance of doing so, bnt this is no Manweb-style bargain.

Worryingly, none of this seems to have frightened off Soutbern Electric. True, Sontbern Electric should be able to take out slightly more of Southern Water's costs because the two businesses overlap geographically. But the overlap is only partial; despite it, Southern Electric stands a real risk of overpaying if it outbids Scottish Power by more than a fine margin. The real question is wby Southern Electric should take the risk. It could almost certainly get a better deal by bidding for, say, Wessex Water instead.

Still, the episode is at last concentrating minds on the undervaluation of water stocks. Looking at discounted cash flows, as a bidder would, suggests – even after yesterday's excitements – that the sector as a whole remains underpriced; Severn Trent, Thames Water, United Utilities and Yorkshire Water all look conspicuously cheap. Even if incumbent managements are slow to extract this value, bidders are bound to spot tbe opportunities. Where Scottish Power and Southern Electric have led, others are very likely to follow.

Lex comment on Ladbroke, Page 20

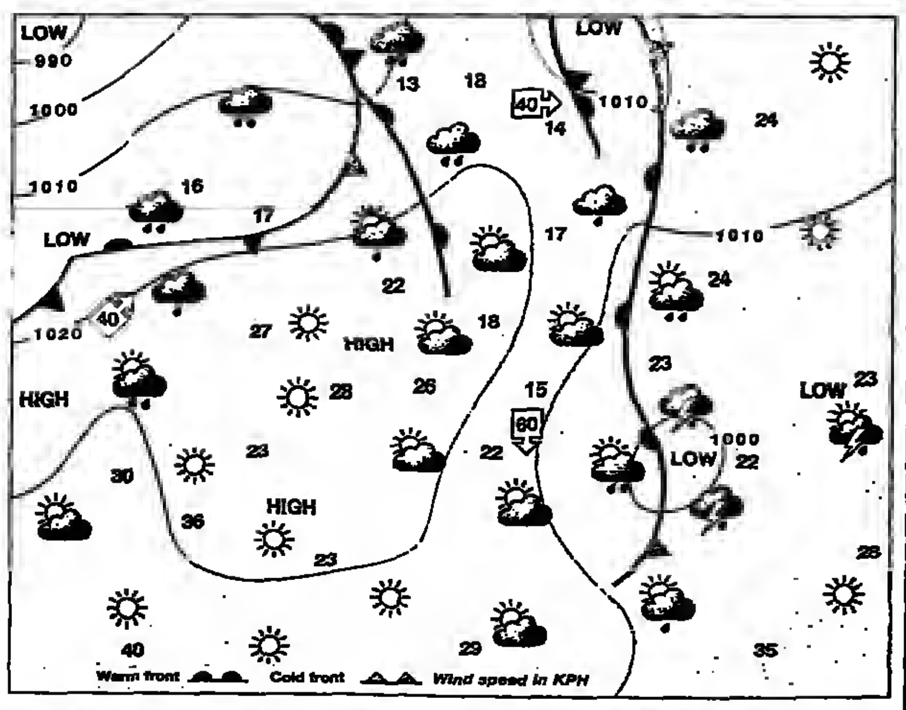
FT WEATHER GUIDE

Europe today

A westerly air flow will draw moist air across southern Ireland and southern England. Drizzle and patches of fog will linger in coastal areas and there will be showers elsewhere. The London area will stay dry and may have soma sun. Cloud and patches of rain will spread across the Low Countries, northern Germany and southern Scandinavia. Bright sunny spells will prevail in northern France and southern Germany. High pressure, stretching from the Atlantic across France towards the Alps, will promote sunny conditions in these areas and in the Iberian peninsula. Abundant cloud and rain will cover the region from Finland to Belarus and into the Balkans. The Balkans will be especially wet as a Bora develops along the Adriatic coast. Thunder showers will form in Greece and western Turkey owing to low pressure nearby.

Five-day forecast

A gradually developing disturbance will cause rain in the British Isles and southern Scandinavia tomorrow and on Friday. High pressure will promote sun in the western Mediterranean on Thursday. This system will slowly move east, giving sunny conditions in the eastern Mediterranean and the Ukraine by the weekend.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	40
Accra	shower	31
Algiers	sun	23
Amsterdam	drzzl	15
Athens	thund	23
Atlanta	thund	33
B. Aires	sun	15
B.ham	shower	19
Bangkok	shower	37
Barcelona	sun	24
Beijing	sun	32
Belfast	shower	17
Belgrade	rain	15
Berlin	shower	19
Bermuda	fair	27
Bogota	cloudy	19
Bombay	fair	34
Brussels	cloudy	19
Budapest	fair	19
C.hagen	rain	15
Cairo	sun	38
Cape Town	fair	21
Caracas	fair	31
Cardiff	shower	17
Casablanca	sun	27
Chicago	sun	17
Cologne	cloudy	21
Dakar	fair	27
Dallas	sun	34
Delhi	sun	41
Dubai	sun	38
Dublin	shower	17
Dubrovnik	windy	21
Edinburgh	cloudy	17
Faro	sun	28
Frankfurt	fair	23
Geneva	fair	23
Gibraltar	sun	23
Glasgow	shower	16
Hamburg	drzzl	18
Helsinki	fair	14
Hong Kong	cloudy	27
Honolulu	fair	31
Istanbul	shower	21
Jakarta	fair	32
Jersey	fair	17
Karachi	sun	35
Kuwait	sun	44
L. Angeles	sun	21
Las Palmas	sun	26
Lima	fair	21
Lisbon	sun	30
London	fair	21
Lux.bourg	fair	20
Lyon	sun	25
Madeira	fair	25
Madrid	sun	31
Majorca	sun	25
Malta	sun	22
Manchester	shower	18
Manila	fair	33
Melbourne	fair	16
Mexico City	cloudy	26
Miami	sun	32
Milan	fair	26
Montreal	rain	14
Moscow	cloudy	24
Munich	fair	19
Nairobi	shower	25
Naples	fair	22
Nassau	fair	31
New York	rain	18
Nice	sun	24
Nicosia	fair	27
Oslo	rain	13
Paris	fair	24
Perth	sun	26
Prague	fair	19
Rangoon	thund	26
Reykjavik	shower	10
Rio	fair	25
Rome	fair	22
S. Frsco	sun	19
Seoul	fair	28
Singapore	fair	32
Stockholm	fair	19
Strasbourg	fair	22
Sydney	fair	19
Tangier	sun	28
Tel Aviv	sun	31
Tokyo	shower	24
Toronto	fair	18
Vancouver	shower	15
Venice	fair	23
Vienna	fair	18
Warsaw	fair	17
Washington	rain	22
Wellington	rain	14
Winnipeg	fair	23
Zurich	fair	20

GERMAN BANKING AND FINANCE

Risks and challenges on the horizon

Can Germans develop a taste for equities? The privatisation of Deutsche Telekom will be the test, says Andrew Fisher

Hope and apprehension are the dominant emotions among German bankers these days. As tbey peer towards Germany's financial horizons, they see a mixture of opportunities and risks that both uplifts and unnerves them.

Looming over all their activities is the prospect of European economic and monetary union, due to start in less than three years. Banks are working hard and spending heavily to prepara for Emu. Despite doubts over whetber it will start on time and who will take part, they are assuming it will come and that they will have to be ready.

But the formation of a euro-currency zone – most likely embracing Germany, France, the Benelux countries, Austria, Ireland and Denmark – will not be problem-free. While much foreign exchange business will disappear and competition in other sectors will intensify, capital markets will be unified and the potential for profit enhanced, at least for the biggest institutions.

That alone is enough to send thooghts racing among ths banks. Bnt they are concentrating on a much more immediate challenge, one of their biggest ever: the DM15bn part-privatisation share issue by Deutsche Telekom in only a few months. Success will be crucial to the country's financial reputation and will help to make private and institutional investors less half-hearted about equities.

German and foreign banks are preparing feverishly for the Telekom issue, which will be followed by a second share tranche by 1999. Telekom itself has embarked on a widespread promotional campaign to address potential shareholders.

Since last year's new issues were mostly successful – notably Adidas sports eqnipment and Merck pharmaceuticals – bankers hope retail and institutional investors in Germany will flock to huy Telekom shares in November. They are also relying on investors in Europe, the US and Asia to bslp ensure that the issne goes well. It will have to be attractively priced, with incentives (still being discussed) to persuade the public to hang on to the shares.

Bnt even if the Telekom issue does sncceed, the German stock exchange will still lag well behind other markets in relation to the size of tha economy. Many more initial public offerings (IPOs) will be required to produce a heavyweight market that can even contemplate rivalling other big financial centres such as London, New York and Tokyo.

The potential is certainly there. Bankers never tire of telling how many Mittelstand (medium-sized) companies are keen to learn about raising money on tbe stock market and are ready to take such a step. Last year's IPO volume was a record at just over DM8bn. This year's will easily set a new high with Deutsche Telekom. But what about 1997 and later?

It is here that the talk turns to pension funds, a vast source of equity, venture capital and other investment in the US, UK and other countries bnt lacking the size in Germany to have much impact. Most pensions are provided by the state pay-as-yon-go systam, with companies generally adding to these from their own internal (book reserve) schemes.

But the PAYG system threatens to burst at the seams. High unemployment and a slack economy is causing a pensions crisis in Germany, with demography adding to the financing woes. Only two or three decades into the next century, there will be just one worker for every pensioner compared with two at present and three in the 1960s.

So far, the government has struggled to maintain the PAYG system in its entirety. But individual and company contrihutions sre set to rise and growtb in pensions is likely to slow down. Companies are also finding that the book reserve schemes which served thsm so well as a source of cheap capital during post-war growth periods are now more of a burden.

With the stato and corporate sldes of the pansion system causing increasing concern, many bankers see a gradual move to pension funds of the Anglo-Saxon type as inevitable. At present, book reserves are treated favourably hy the tax regime. Companies set aside money to meet future pension liabilities and invest it in their own equipment or keep it in liquid form.

But despite the advantages of this free cash flow, companies now find pensions are costing them more as retirement commitmants increase. Having their pension liabilities managed independently would relieve tbem of this burden, and companies are tbus starting to show more interest in Anglo-Saxon-type pension funds. Since tbese would invest beavily in equities to provide the best long-term returns, tbs capital market could benefit enormously.

German companies' book reserves total some DM270bn, equivalent to a third of the country's stock market capitalisation. Ronaldo Schmitz, a director of Deutscbs Bank, says that if companies could be persuaded to put some of their reserves into the capital market, "this would liven up the stock exchange considerably".

Gerhard Koning, formsr head of corporate finance at Commerzbank, agrees. "The fact that tbese pension reserves stay with the companies is ona reason the German capital market is so-underdeveloped," be saya. In some cases, pension liabilities may be better off within the company than ontside. Bnt this depends on individual company performance, whicb varies enormously. Bankera argue that the discipline and transparency of tha capital market would provide a better assurance of adequate returns for future pensioners.

"We have to get to a funded system," says Gerhard Eberstadt, a director of Dresdner Bank. "I can't understand why the health care scheme for the aged [*Pflegeversicherung*] was not done on a funded basis." Bnt while the government remains reluctant to act in such areas, realisation is dawning that private provision – and thus equity investment – will have to play a larger role.

"The market economy in Germany – in terms of equity – is still in its infancy," says Andreas von Buddenbrock, a Frankfurt-based executive at Merrill Lynch, the big US investment house. Market capitalisation in Germany is only a tenth of that in the US, although the US economy is only three times as large.

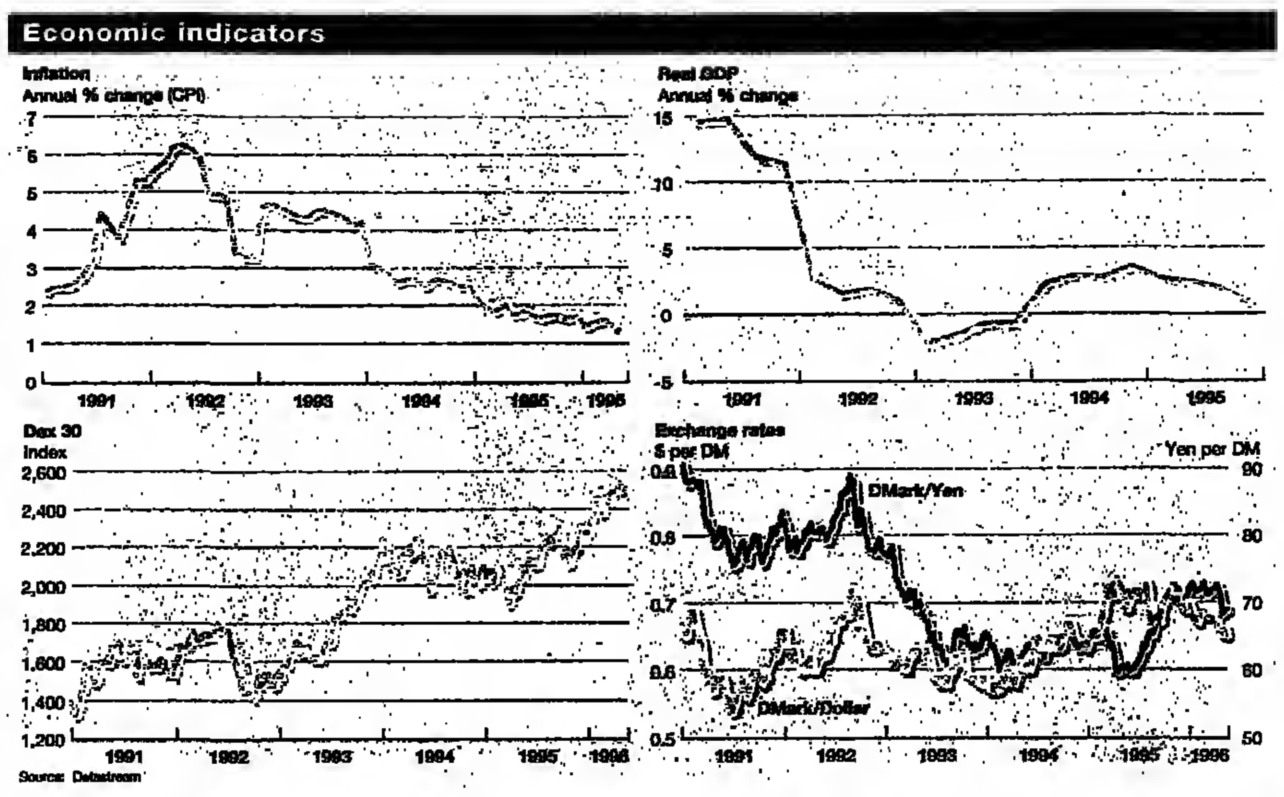
With financial markets becoming increasingly interdependent through technology and global diversification of portfolio investments, Germany has much catching np to do. Merrill's data shows that only about 6 per cent of US institutional investment is in foreign equities. "We expect this rate to grow to about 20 per cent," says Mr Von Buddenbrock.

The potential extra US demand for investment in foreign stocks – mostly by pension funds – could total around DM1,500bn. But little of the DM100bn or so that the US oow invests annually in foreign equities goes to Germany: most is invested in Asia, the UK and soutb America. Attracting more of these funds will be an enormous task, requiring a mucb more intensive effort by German banks, markets and the government.

The Frankfurt Stock Exchange is playing its part, investiog in new trading systems and developing a markst in tecbnology-oriented stocks to attract foreign institutional investment. Co-operation wltb the Düsseldorf, Municb and Berlin exchanges is also under way to improve liquidity and simplify settlement and share registration.

But the financial community is really boping for action by the government, especlally since Chancellor Helmut Kohl calls constantly for Germans to become more risk-minded and entrepreneurial. By grappling with the intractable budget deficit, the government is doing its best to trim the state's role in the economy. Bnt tax cuts and private investment incentives are what bankers and fund managers really want to stimulate capital markets and to promote the cult of the equity.

Economic indicators



Source: Datastream

Production editor: Roy Terry
Design: Frances Trowsdale

■ **The equity market:** by Andrew Fisher

The glamorous side to selling shares

European stock markets	Market cap (Ecu bn)	Listed companies	Newly listed companies in 1995
UK	1,038	1,745	(184)
France	389	710	(23)
Germany	439	678	(20)

Source: Federation of European Stock Exchanges, German Banking Association

The idea that equities are a favourable long-term investment is catching on

Ever wanted to buy a snazzy sports car? Deutsche Bank has an idea for you: invest in shares, though you will need patience. Enough money put aside over a long period can make all the difference, it argues. "The difference between shares and bonds can be a sports car in the long run," says its latest full-page newspaper advert. Allowing for tax and inflation, shares have averaged seven times the return of bonds over 10 years.

It is a seductive message, reinforced by a picture of a glamorous female banker who is passing on the advice to a male customer. Glamour of a breezier kind is also on display in a share-promotion advertisement by Deutsche Telekom, the big state-owned telecommunications group which will sell DM15bn worth of equity in November. Her personal organiser and mini-umbrella forming a T for Telekom, a young working woman tells why she has sent off for data on the enormous privatisation issue.

Selling shares to Germans is hard work, even though they have the money. The sort of promotion that banks and companies now increasingly resort to will not have an impact overnight. Of the near DM4,650bn of financial assets that households owned last year, just over 5 per cent was in shares, according to Bundesbank statistics.

Yet even the most resigned bankers see signs of change as the idea that equities – whether of individual companies or in unit trust form – is a favourable long-term investment starts to penetrate the German consciousness. As publicity for the Telekom issue gathers pace, private and institutional investors will consider seriously whether to invest when the time comes.

"We lack an equity culture in this country," says Rolf Breuer, a director of Deutsche Bank and head of the supervisory board of Deutsche Börse, which runs the Frankfurt stock exchange and the futures and options market (Deotsche Terminbörse). "Now, we have the Telekom privatisation coming up. The question is: can that change anything?" He thinks it can.

"The whole transaction is a mega-effort," he says. "On the domestic side, it is the largest equity transaction ever in this country. The main thing is how to get the private investor interested in Telekom shares and to stay interested once the transaction has been completed." This will be important because a second tranche will follow, possibly in 1998.

The shares will have to be priced attractively to tempt retail investors, with incentives to hold the shares over a longer period. There are still six months of heavy promotion and preparation to go. Yet the interest aroused last year by the issue of shares in such prominent companies as Adidas sports goods and Merck pharmaceuticals – both heavily over-subscribed – has raised hopes as to what Telekom can achieve.

But one initial public offering (IPO), however big, will not itself be enough to make the German public swarm into shares, though it should help. Companies will have to take the IPO route to raise capital far more avidly than they do at present if the stock market is to match the size of the economy.

"Germany's stock market capitalisation in relation to gross domestic product is laughably low," says Thomas Neisse, head of asset management at Bayerische Vereinsbank. "But there should be a wave of Mittelstand (medium-sized) companies coming to the market as they undergo a change of generation and younger family members don't want to continue."

> 'The difference between shares and bonds can be a sports car in the long run'

Last year saw a record new issue volume in Germany, with 20 companies coming to the stock market to raise some DM8bn. So far in 1996, the flood has been reduced to a trickle as potential issuers await the Telekom issue. Mr Gerhard Eberstadt, a director of Dresdner Bank, says, however, that more family-owned companies are thinking about coming to the stock market. "Our new issue teams are holding far more talks with potential candidates than before."

But Norbert Juchem, a director of Vereinsbank, says: "We don't only need more IPOs. We need to consider who holds the shares, who takes the risk." That raises another key problem for the German equity market – the absence of big pension funds of the Anglo-Saxon type which invest for the long term and concentrate heavily on equities. Most Germans rely on the pay-as-you-go state system, with retirement incomes topped up from company schemes.

But two key changes are occurring: the state system is under immense financial strain; and the efficiency of the corporate practice of keeping most pension money invested internally (in so-called book reserves) rather than in independently managed funds is being questioned. Book reserve schemes have tax advantages, so a wholesale switch to pension funds would require action by the government.

That may not be forthcoming for a while. But bankers generally expect pension funds to become part of the German financial scene, though slowly at first. They regard this as vital in encouraging a more dynamic stock market, with more issues and a wider spread of liquidity and investment choice.

"If we don't succeed in getting institutional pension funds, which have to look to the long term, then we won't succeed in making the equity market deep and broad enough for mid- and small-caps," adds Mr Juchem. "Industry is very strongly Mittelstand-oriented. If there is not enough equity, then not enough jobs will be created."

Thus he thinks the time is ripe now for Bonn to take action. Andreas von Buddenbrock, a director of Frankfurt-based Merrill Lynch Bank, part of the big US investment house, agrees. "Awareness is rising and I hope the government will act. A funded pension system would be much more effective than the present state scheme."

It would certainly give the IPO scene a new impetus. Liquidity in small and medium-sized company shares (the small- and mid-caps) is often inadequate. Deutsche Börse is trying to improve this and will start a new market for young, innovative companies which it hopes will attract strong foreign investor support. A new electronic trading system is also planned.

While plenty is happening on the German equity scene, a great deal depends on factors beyond the market's control. Bankers are lobbying hard in Bonn for changes in the pension system. But the government is not always as quick on its feet as the financial community would like.

■ **Market plans:** by Andrew Fisher

Technology on their minds

Amid the daily hubbub of share and bond trading, the managers of Deutsche Börse, which runs the Frankfurt stock and futures exchanges, mainly have one thing on their minds these days – technology.

A decision on a new electronic securities trading system to improve efficiency and liquidity is due soon. It will cost up to around DM120m, less than the originally envisaged DM150m. The choice is between Arthur Andersen and IBM, both of which have systems in use at the Frankfurt exchange.

At the same time, Deutsche Börse wants to beef up trading in shares outside the main Dax blue-chip index. It has already set up a new index of 70 medium-sized stocks (the MDax) as a benchmark to help big investors in their investment decisions. Now, it is developing a new market segment to specialise in young, innovative companies with high growth potential.

This *Neuer Markt* (new market) is due to start in the first quarter of next year with two or three stocks. "At the end of 1997, we expect to have around 20 companies," says Günter Femers, marketing manager in domestic products at Deutsche Börse. "We expect the high-tech area to provide most growth, but it will not just come from there – a company with a clever distribution concept, for example, could also be a candidate."

Frankfurt's Neuer Markt will also link up with Le Nouveau Marché in Paris, which already has four companies listed, and the Belgian New Market (starting next January) in an ambitious plan to form the nucleus of a pan-European market for smaller, technology-oriented companies. This Euro.NM will be a rival to Easdaq, which will be based in Brussels as a European version of the US's successful Nasdaq market.

Since German venture capitalists bemoan the lack of exit routes when wishing to sell shares in their company protégés, the Neuer Markt and its neighbouring partners should help meet their needs. Foreign institutional investors are a particular target. Thus companies quoted on this market – their turnover will average around DM100m – will have to meet more stringent listing requirements than on the main exchange. They will have to issue quarterly reports in German and English, abide by international accounting standards (IAS) – more disclosure-oriented than the German system – and have regular meetings with analysts.

Mr Femers says other European stock exchanges could later join the Euro.NM, in which investors will have the same screen access to all participating markets. Reto Francioni, a director of Deutsche Börse, says integration of the Frankfurt, Paris and Brussels new markets could be completed in two or three years.

If successful, the Neuer Markt could influence the rest of the stock exchange. "Success stories on the Neuer Markt could have an impact," says Mr Francioni. "It all comes down to a good story, with proper research to bring that out."

■ **Deutsche Telekom:** by Michael Lindemann

Market awaits details of giant sell-off

Analysts are optimistic about the initial share offering of around DM15bn

For almost two years now the markets have been discussing Germany's biggest ever share issue, an initial public offering by Deutsche Telekom valued at around DM15bn, but details remain relatively scarce.

Partly because of the strict guidelines set out by market supervisory agencies such as the Securities and Exchange Commission, and partly because of the complexity of the IPO itself and the considerable pressure to make a success of it, Deutsche Telekom has so far been reluctant to reveal information about the structure of the issue, which is due to be listed in November.

A good deal of further information about the Deutsche Telekom's financial health is expected to emerge on June 4 when the company presents its 1995 results. This will include, for the first time, accounts tailored to meet the standards of the US Generally Accepted Accounting Principles or GAAP.

But the world's third biggest telecoms operator in terms of sales is tapping the capital markets at a time when the telecoms industry itself is experiencing unprecedented change.

New technologies such as the Internet and the advance of mobile telephony have made developments in the telecoms business more difficult to forecast.

Meanwhile, the pressure to liberalise previously inaccessible telecoms markets around the world, offer opportunities for larger operators like Deutsche Telekom to expand. These pressures have also in recent months led to an entirely new series of alliances in the US, for instance.

While recent telecoms share offerings such as Telefónica of Spain and Indonesia's PT Telkom have noticeably failed to impress the markets, analysts are a good deal more positive about Deutsche Telekom.

They base their optimism on the fact that Deutsche Telekom has a near monopoly on voice telephony in Germany, Europe's biggest and its most lucrative market with 41m telephone clients. It looks likely to retain the voice telephony monopoly until January 1, 1998, giving the company more time to improve its services to meet the competition.

The company faces competition in mobile telephony – where its subsidiary, DeTeMobil, is one of three operators – and in data transmission, a smaller niche market.

Deutsche Telekom also owns Europe's largest cable network which is designed to serve 24m households and has so far been connected to around 16m. The cable network is regarded as a priceless asset at a time when broadband, interactive television is about to be launched, permitting interactive services such as telebanking and video on demand.

Ron Sommer: share price will match cost of a family cinema trip

Third, the company has successfully launched Global One, a three-way international alliance with France Télécom and Sprint, the third biggest US long-distance carrier. While the venture has yet to receive formal approval, it began business at the beginning of this year and appears to have made a good start.

However, there are a number of pitfalls that could result in considerable hidden costs.

Deutsche Telekom has so far refused to say how much it will cost to shed the planned 60,000 jobs between now and 2000. Already there is specula-

Continued on page 3

■ **Economic and monetary union:** by Andrew Fisher

Preparing for Emu's take-off

Germany's banks hope that the loss of the D-Mark will be offset by many new opportunities

Whatever they may think in private, most German bankers argue strongly in public that economic and monetary union is desirable and inevitable – if not on schedule in 1999, then a little later. Banks are expending much effort, and lots of money, in buying new computer systems and software, training staff and explaining the ins and outs of Emu to often sceptical customers.

For each of Germany's largest banks, the cost will approach DM200m. But the implications go much deeper than time and money. As Emu approaches, the prospects for the whole European banking sector are being thrown open to debate. With one currency, the euro, there will be fundamental changes in the way banks operate.

Further concentration in banking seems inevitable. The manoeuvrings across the border between the big Swiss banks have already raised speculation whether some of the smaller German institutions could be taken over or merged. Monetary union, or its approach, is likely to speed up this process.

Just now, though, it is hard to assess Emu's impact. "I think none of us is in a position today to really work out what changes will take place in the various segments where we operate," says Martin Kohlhaussen, the chairman of Commerzbank. "You can't identify in bits and pieces what it will mean for the profit and loss account."

But he is positive on the overall outlook. "There has been too much talk of the disadvantages. I think there will be quite a lot of advantages." With the creation of a large single currency zone, there will be a considerable enhancement of market liquidity. "The euro will then really be an alternative to the dollar." Thus for all types of investment banking, "these broad markets will offer a lot."

Evidence of what some Germans think of the euro can be found on these stickers which have been plastered on lampposts in Frankfurt

This is what attracts the big banks, with Deutsche Bank especially eager to exploit the new opportunities it expects with the advent of Emu. The hope is that this will offset the loss of one of German banking's biggest assets - the D-Mark. "We will lose the position of operating from a strong currency," Mr Kohlhaussen adds.

This is one of the banks' big concerns, says Hermann Remsperger, chief economist at BHF-Bank. "With the loss of the D-Mark, German banks lose a marketing tool." The stability of the D-Mark and the stable policies of the Bundesbank are persuasive factors in talks with institutional investors, he adds. "It is a big selling asset and one that will disappear one day."

Yet Hans Tietmeyer, president of the Bundesbank, believes the euro could be even more of an asset, if Emu is handled properly and with the emphasis on stability. In this case, "the euro stands a good chance of becoming an even more important investment and reserve currency than the Deutsche Mark".

To make sure they can prosper without the D-Mark, German banks are scrambling to position themselves ahead of Emu.

Westdeutsche Landesbank, the big public sector bank, is developing new foreign currency products which it will offer clients from its growing London-based investment banking operation. Both Deutsche Bank and Dresdner Bank are building up their own investment banking units, enlarged by big UK acquisitions, while Commerzbank is going it alone.

German banks' investment banking strategies are not just based on the expectation of Emu, but they are being adapted in line with the prospect of currency union. This is true in other sectors as well, from corporate finance to private investment advice. Increasingly, banks will have to take account of the wider European dimension in meeting customers' needs.

Helmut Kohl: his vision of European monetary union is inspired more by politics than by economics

Martin Kohlhaussen: too much talk of the disadvantages

Hans Tietmeyer: euro could become a valuable asset

At this stage, banks are still finding it hard to persuade many of their corporate customers – especially smaller and medium-sized ones – that now is the time to start preparing for Emu. They are trying to convince them at least to have some idea by the end of this year how their businesses could be affected by the coming of the euro.

Information booklets on how to prepare for Emu and what is likely to change in terms of markets, strategy and capital spending have been issued to clients by the banks. While awareness is rising, it is still below the level banks think desirable. "But things seem to be changing," says Mr Remsperger. "Companies are telling us more that they want practical advice."

Much of the ignorance about Emu reflects the lack of convincing political argument. Politicians such as Theo Waigel, the finance minister, have argued strongly that the Emu convergence criteria in the Maastricht treaty must be strictly observed and the 1999 starting date maintained. But they have been less adept at telling people just what Emu will mean for them and what benefits it might bring.

This may be because the advantages will take time to show through. At present, the emphasis – in Germany, as elsewhere – is on cutting budget deficits and public sector debt to make sure the criteria can be met. And since Chancellor Helmut Kohl's vision of monetary union is inspired more by politics than economics, putting across the wisdom of embracing the euro and discarding the D-Mark is no easy task.

But Martin Hüfner, chief economist at Bayerische Vereinsbank, warns against making the case for Emu appear too rosy. "It is dangerous to regard Emu as a job creator." It will make governments cut deficits and help lower labour costs, especially in Germany, but this in itself will not help the unemployed.

"Emu should not be used to promise more jobs. Companies will carry on their rationalisation programmes and this will lead to more productivity, not more jobs," he adds. Employment opportunities will come from more deregulation and the introduction of more flexibility into the economy. Emu's contribution should be to ensure stable growth with low inflation.

The capital markets at least seem to have stopped worrying about Emu. "I have the impression that markets have now got used to currency union," says Mr Hüfner. "About six months ago, they thought it would not happen. Now, I don't think there will be any major upsets on the markets when Emu comes."

That still leaves the reservations of the banks' other customers. But banks seem confident that they can overcome these, too. The politicians have left much of the job of persuading people to accept Emu to the banks any way.

"Customers are demanding information," says Klaus Friedrich, Dresdner Bank's chief economist. "There is plenty of scepticism but no insurmountable wall of rejection."

Telekom sell-off

Continued from page 2

tion that, to keep up with competitors like British Telecommunications, the company will in fact have to shed 90,000 jobs, bringing its workforce down to 140,000 instead of the projected 170,000.

This year alone Deutsche Telekom will have to spend an unexpected DM10bn to accelerate the digitalisation of the German telephone network. The delay in doing this has proved to be a significant oversight, preventing the company from offering a number of more sophisticated telephone services – such as an answering machine in the network – and making it look second-rate compared to international competition in the US and the UK.

While international comparisons, especially with the UK, Europe's biggest liberalised market, suggest that an incumbent operator such as Deutsche Telekom should be able to retain the biggest slice of the telecoms market, this is by no means certain.

Competition has already come much sooner than expected. The so-called alternative telecoms networks belonging to the electricity utilities and Deutsche Bahn, the federal railways network, will be opened to Deutsche Telekom's competitors on July 1 this year. This is a development which the company did not anticipate.

Furthermore, Deutsche Telekom has still not received approval for its aggressive corporate discount scheme which would allow the company to offer its largest and most lucrative corporate clients a rebate of up to 39 per cent on their phone bills.

The European Commission, spurred into action by companies such as RWE and Mannesmann who want to compete with Deutsche Telekom, has suggested that the rebates be delayed because they threaten to distort competition. The Commission has suggested that the tariffs be introduced on January 1, 1997, but this delay has already caused havoc with the company's revenue forecasts.

And, despite Deutsche Telekom's best efforts, the discussion about whether the company should be forced to sell off its cable network has also failed to die down.

The 1995 results are expected to include as many provisions as possible to present the best possible outlook for 1996 and beyond.

Joachim Kröske, finance director, has already indicated that 1995 profits would be higher than those reported in 1994 but that they would fall in 1996, in part because of the first-time introduction of VAT, which Deutsche Telekom may not pass on to its customers, and because of a range of rebates which will initially depress revenues.

Apart from that Ron Sommer, who took over as chief executive in May last year, has indicated that the shares would be priced "around the cost of a family trip to the cinema". How the issue is priced will also depend heavily on the second tranche of Deutsche Telekom shares, also expected to be worth about DM15bn, which will be issued before 1998.

The banks are also working on schemes to make Deutsche Telekom shares more attractive to private investors, who have traditionally avoided equities in favour of more conservative investments such as bonds.

Deutsche Telekom has so far said that it expects to list shares in Frankfurt and New York, with about two-thirds being taken up by the German market. Listings in London and Tokyo are also being considered.

Since Deutsche Telekom has adjusted its accounts to meet GAAP standards, Mr Kröske said the company was also considering a stock exchange listing in Canada.

PROFILE Friedel Neuber

Orchestrator of expansion plans

As the head of Germany's largest public sector bank, *Friedel Neuber finds himself* both orchestrating its expansion and defending its existence.

Not that Westdeutsche Landesbank, Germany's third biggest bank, is likely to please its private sector rivals by pulling in its horns. With total assets of around DM430bn, operating profits last year of DM1.1bn (up 58 per cent) and a growing presence in investment banking and asset management, WestLB is a powerful force in German and international finance.

In moving further beyond its Düsseldorf base, WestLB is simply following its customers, says Mr Neuber. Thus it is building up its investment banking business in London, though without *big-ticket acquisitions*, moving deeper into Asia and forging links with other German regional banks. It also has sizeable stakes in German industry.

But some of WestLB's commercial banking rivals have cried foul, alleging that its capital has been unfairly strengthened by public funds in the form of housing finance assets.

Three years ago, the German Banking Association, representing private sector banks, filed a complaint – also mentioning other regional state banks – to the European Commission. A decision could come soon.

Mr Neuber, however, is unmoved. A seemingly unflappable man not given to wordiness, he says the complaint is unjustified and is confident it will not be upheld. "We have three banking pillars in Germany and they all work very efficiently. There are the Sparkassen [savings banks], which are in the public sector, the private banks and the co-operatives. This makes for a very efficient banking network. I don't know why people question it; it's the best *possible structure*."

This structure goes to the heart of the role played by WestLB in German banking. Owned by the state of North Rhine-Westphalia and regional savings associations, it is by far the largest of Germany's Landesbanks, which function as central banks for the savings movement and fund-raisers for regional government and other *public bodies*.

Critics of the Landesbanks say they have access to capital at cheaper rates than other banks and are less subject to market forces. Mr Neuber denies this, at least in WestLB's case. Germany's banking structure is envied the world over, he asserts, and says that questioning one of its main pillars (the public sector, including savings bank) is something he regards as "irresponsible".

According to Mr Neuber, the German public sector, which spans regional state governments and local authorities, needs a range of financial services like any other customer. As European markets develop further, especially with currency union, this will become even *more important. Mr Neuber* believes that the federal and state governments support his view. "I assume these messages will be taken seriously in Brussels," he says.

The approach of European monetary union is a vital aspect of WestLB's strategy under Mr Neuber. The bank's investment banking drive, centred on London through its *West Merchant* Bank subsidiary, is aimed at providing German and European corporate and other customers with access to a wide range of financing facilities.

This means moving beyond the D-Mark sphere into foreign currency bond, derivative and equity products. The bank recently bought Panmure Gordon, the UK stockbroker, for around £30m. It plans to spend approximately DM200m on developing new non-D-Mark products for its clients ahead of Emu.

Mr Neuber sees Emu as one of the main challenges for WestLB and its competitors. "The banking market in Europe will change profoundly. Often, it is the *risks that are seen in such* changes, not the opportunities. We see the chances and will further improve our position in the European market."

That does not sound like a bank cowed by its private sector rivals. In his low-key way, Mr Neuber has served notice to other banks that

Friedel Neuber: Emu will change the banking market profoundly

WestLB intends to grow more – not less – vigorous. A third of its profits come from outside Germany and the bank has also identified Asia and Australia as key markets. It has branches in Tokyo, Hong Kong and Singapore and plans to upgrade its representative offices in Shanghai, Sydney and Bangkok to branch status.

South America is also eyed as a more promising market.

Andrew Fisher

Regional banks: by Andrew Fisher

Part of the landscape

The funding of state banks has been challenged, but their future seems assured

Public sector banks are an integral part of the German banking scene, but not everybody loves them. Some bankers would dearly love to see them retreat into the background.

The main function of the big public sector regional banks (Landesbanks) is to perform central banking and other services for their owners, mostly state governments and local savings organisations.

Led by Westdeutsche Landesbank, by far the biggest of the 12 Landesbanks, they have been expanding abroad, developing domestic link-ups and moving well beyond their original role into such areas as securities trading, corporate finance and capital markets.

"Every state in Germany likes to have its own Landesbank," says one private sector banker. "It's like having their own cathedral or theatre." Thus commercial banks have become irritated at what they see as publicly-supported regional institutions – now accounting for 24 per cent of the total banking market – muscling in on their territory.

"It is hardly surprising that the private sector commercial banks have been vociferous in their criticism of what they view, with some justification, as an anti-competitive situation," wrote Ms Jennifer Ray, European bank bond analyst at Salomon Brothers, in a study of German public sector banks. "The public sector banks are benefiting from cheap funding due to their guaranteed status and using it to compete with unsupported commercial banks."

The Landesbanks disagree strongly with this interpretation, arguing that their funds are provided on a commercial basis and that they have to earn a proper return. Moreover, they are an essential part of Germany's postwar federal system, within which each regional state (Land) has its own financial responsibilities for which it relies on public sector banks.

It is because of their solid public ownership that debt rating agencies give Landesbanks top ratings. "None of the Landesbank ratings are based on their stand-alone quality," says Mr Michael Zlotnik, Frankfurt analyst at Standard & Poor's, the international rating body.

The issue of the Landesbank capital sources has been taken to Brussels, where the European Commission has been called upon to make a ruling. This follows a challenge three years ago by the German banking association, representing private sector banks, against capital infusions to Düsseldorf-based WestLB and some other Landesbanks by means of housing development assets.

Since the German government and the regional prime ministers have made clear they back the present German banking structure – comprising public sector and savings banks, private sector institutions and co-operative credit bodies – WestLB and the others profess not to be too worried. But a decision in favour of the private sector complaint would have severe implications for the Landesbanks.

It would, at the very least, intensify the pressures for cost reduction and more efficient management which are becoming more apparent as Germany's state budgetary apparatus comes under increasing strain. Even the idea of privatisation has been raised, although this is still regarded as a heresy by most Landesbank executives. Mergers, too, have been mooted, though any moves could be some years off.

Yet as the needs of their public and private sector customers evolve and capital markets undergo rapid change, the Landesbanks are being forced to rethink their position. WestLB (owned by the government of North-Rhine Westphalia and the regional savings movement) has decided to go for expansion, building up its investment banking business in London and expanding further afield into Asia and eastern Europe.

It is now the third largest German bank and would have been part of a much bigger grouping if plans to merge with Frankfurt-based Hessische Landesbank (Helaba) had succeeded. Instead, each bank has gone its own way.

> "Every state likes to have its own Landesbank. It's like having their own cathedral"

WestLB has taken large minority stakes in Landesbank Rheinland-Pfalz (Rhineland-Palatinate), based in Mainz, close to Frankfurt, and Landesbank Schleswig-Holstein in Kiel, northern Germany. It also has joint property and securities settlement activities with other regional banks such as Südwestdeutsche Landesbank (Stuttgart); these are aimed at saving costs.

The Düsseldorf bank is keen to build up its alliance with Kiel as a "Bank of the North" in such Baltic sectors as shipping finance. Thus Landesbank Schleswig-Holstein is taking over WestLB's branch in Copenhagen, Denmark. WestLB is also keen to help the east German state of Brandenburg, partnered with North Rhine-Westphalia, form its own Landesbank. But these plans have been put on ice by rejection of a merger between Brandenburg and Berlin.

For its part, Helaba – now Landesbank Hessen-Thüringen, with the widening of its responsibilities to the east German state of Thuringia – has kept more to itself. It was recently overshadowed by a personality clash between its chairman and the head of the savings organisation which owns the bank. Both have now gone. Though staying away from investment banking, Helaba has been building up its treasury and proprietary trading operations in London. With its Frankfurt base, Helaba clearly benefits in terms of status from being in Germany's financial capital. It uses this advantage abroad. "Our spearhead in London is D-Mark products," says Christian Klein, Helaba's treasurer.

What happens when European monetary union occurs and the D-Mark disappears? "When the euro comes, capital markets will develop in Hungary, Poland and the Czech Republic," he says. "There will always be non-euro currencies in Europe." Emu is also a strategic focus for WestLB, which is spending heavily on developing non-D-Mark products to be traded from London.

In south Germany, Bayerische Landesbank, the country's second largest bank of its type, has also been pushing into new areas. As well as being represented in the world's main financial capitals, it has been building up activities in Austria and Italy and overseas in south-east Asia and China. At home, it holds a stake in Landesbank Saar, one of the smallest.

There are more domestic permutations. In north-east Germany, Landesbank Berlin is part of a wider commercial banking group, Bankgesellschaft Berlin; Norddeutsche Landesbank (Hanover) is part owner of the latter, with the city of Berlin as majority owner.

Further changes could be on the way. The financially-pressed city state of Hamburg has said it wants to sell a stake in Hamburgische Landesbank. Yet however much the public sector banking landscape changes, its main features look set to remain. Even so, pressure from commercial rivals, cost-conscious public owners and fast-moving capital markets will force publicly-owned banks to look much closer at their own performance.

Germany's biggest Landesbanks

	Assets (DMbn)
Westdeutsche Landesbank	430
Bayerische Landesbank	318
Norddeutsche Landesbank	209
Südwestdeutsche Landesbank	180
Landesbank Hessen-Thüringen	157
Landesbank Berlin	143

Source: Information supplied by banks

PROFILE **Rolf Breuer**

The equities evangelist

Rolf Breuer: keen to make Germans more equity-conscious

For years, Rolf Breuer, a director of Deutsche Bank, has been hoping that Germany's stock market will take off in a way that matches the importance of its economy. But each time it has shown signs of doing so, he has been disappointed. Although people have piled into the market during periods of rising share prices, they have left again when stocks have sagged.

This happened a few years ago, recalls Mr Breuer, who plays a leading role on the German capital market scene as chairman of the supervisory board of Deutsche Börse, which runs the Frankfurt stock market and the futures and options exchange (DTB). "After the boom, we re-counted the number of individual shareholders in this country and it had not changed ... we were successful in creating new speculators but not in creating investors," he says.

German savers are mostly risk-shy, preferring fixed-interest securities to equities, though banks are at pains to point out that the latter generally do best over the long run. Most Germans remain to be convinced, however. "I'm afraid we are still sort of an emerging country in this respect – on our way, but far from having reached a situation where the size and importance of the equity market reflect the strength of the underlying market," says Mr Breuer.

Two developments, however, might make Germans more aware of the benefits of investing in shares and equity-based unit trusts. Mr Breuer is pinning his hopes to the effects of growing concern over pensions and to the state-owned Deutsche Telekom's mammoth sale of shares worth some DM15bn.

On the pensions side, private provision is likely to receive increased attention as the state system comes under increasing financial pressure. As for Deutsche Telekom, the issue will be one of the world's largest ever equity issues and should be so heavily-publicised that few people will fail to notice it.

Mr Breuer, who has been on Deutsche's board since 1987, is keen that the opportunity to make Germans more equity-conscious is grasped. "We have never had such an equity campaign," he says. "We have a new chance. I guess, if we get it right."

Mr Breuer's hopes rely on German and foreign banks, as well as Telekom itself, making the issue attractive to investors. They also presuppose that the government will – as expected – change the law to allow special investment funds for private provision for retirement. Further down the road, and also dependent on legal moves, are Anglo-Saxon type company pension funds that Mr Breuer and other bankers hope will give the stock market a powerful new impetus.

As head of Deutsche Börse's supervisory board, Mr Breuer is determined that the stock exchange be ready to take full advantage of these opportunities and of the investment horizons opened up by the wave of money that Germans are due to inherit. Deutsche Börse's management is pushing ahead with new technology and with moves to make the market more liquid – especially for smaller and medium-sized companies' shares – and to co-operate closely with the smaller Düsseldorf, Munich and Berlin exchanges on pricing, settlement and share registration.

A sophisticated new electronic trading network is planned, with a decision due in a few months on which system to adopt. Mr Breuer believes the Frankfurt market – which accounts for some 75 per cent of share dealings in Germany – is already advanced technologically compared with other markets, including London. "We do have a competitive edge if we really use it."

However, in terms of the number of companies quoted on the market, Germany lags well behind such countries as the US. Last year saw a record volume of new issues, but this year has seen a lull ahead of the Telekom flotation. Mr Breuer expects the flow of initial public offerings (IPOs) to pick up again. "The willingness of family-owned companies to at least discuss going public with all or part of their holdings is growing," he says.

One prospect that excites him is European monetary union, which will change the face of securities trading in Germany. Dealings in Emu member exchanges in one currency – the euro – will mean that portfolio managers and analysts will more easily be able to compare stocks with their US and Asian counterparts. Investors will be able to take a pan-European view. Mr Breuer's conclusion? "I foresee dramatic changes and more business."

Andrew Fisher

How Germany's biggest banks fared in 1995 (DMbn)

	Total assets*	Operating profits†	Net income
Deutsche Bank	722 (+22%)	4.24 (+17%)	2.12 (+24%)‡
Dresdner Bank	484 (+21%)	1.99 (+22%)	1.21 (+17%)
Commerzbank	404 (+18%)	1.45 (+109%)	0.98 (-7%)
Bayerische Vereinsbank	356 (+12%)	1.38 (+30%)	0.66 (+16%)
Bayerische Hypo-Bank	299 (+8%)	1.30 (+17%)	0.68 (+30%)
Bankgesellschaft Berlin	281 (+14%)	0.96 (+18%)	0.48 (+13%)

*Figures in parentheses indicate the percentage change over 1994 figures †After risk provisions ‡On International Accounting Standards basis

Source: Information supplied by banks

Banks: by Andrew Fisher

Institutions face a painful transition

Hilmar Kopper: "the upheaval in banking is dramatic"

In an era of global competition, the big commercial banks face domestic upheaval

The pace of change is speeding up sharply at Germany's big commercial banks as they struggle to ensure that the process will be more profitable than painful.

So far, the pain has been limited. But that is unlikely to last. Profits remain under pressure, with the earnings upturn of the past year or so owing much to the recovery in capital markets, while heavy spending on new services and technology has yet to show through fully in performance.

Meanwhile, competition is becoming steadily more intense. It is almost impossible to read a magazine article or analyst's report on the sector without being confronted with strongly worded opinions on German banking trends. Deutsche Bank is in the forefront of the changes and makes no secret of its intention to stay there. "The upheaval in banking is dramatic," wrote Hilmar Kopper, its chairman, in the 1995 annual report.

"Time is of the essence. Global competition is tougher than ever," he stated portentously. Deutsche Bank is pushing ahead vigorously with the integration of its investment banking unit, Deutsche Morgan Grenfell, formed after buying Morgan Grenfell of the UK seven years ago. It is also streamlining its domestic branch network and last year opened a new direct bank, Bank 24.

The over-riding aim, Mr Kopper said, was for Deutsche Bank to assert itself as Germany's and Europe's leading bank and be one of the world's top 10. "At the same time, we aim to become the prime European investment bank and catch up with the global leaders."

Yet Germany's biggest bank does not have a monopoly on change, although it is among the most convincingly aggressive in the way it pursues its strategy. Other banks have been striving to develop their activities in investment banking, asset management and direct banking, while also exerting a stronger grasp on their increasingly less profitable domestic branch businesses.

Dresdner Bank last year bought Kleinwort Benson, the UK investment bank, while Commerzbank acquired Jupiter Tyndall, the UK fund manager. Bayerische Vereinsbank has also been spending heavily on new technology and plans to expand its treasury and asset management sides. It recently opened a direct bank, Advance Bank, following in the footsteps of Commerzbank and Deutsche Bank.

In a study of German banking, Schröder Münchmeyer Hengst, the Frankfurt bank, said the sector was now undergoing radical change, although the impact would not be as great as in the US since the early 1980s. Foreign banks were now increasingly competitive in Germany, it noted.

"Germany's universal banks [the big banks carrying out a variety of financial activities] have taken up the challenge in terms of price, innovation and technology on a scale hitherto unseen," wrote Burkhard Erke, the SMH analyst. "This competition will change the face and character of the German banking industry."

Not only are corporate customers waking up to the possibilities of doing business more cheaply with other banks – or raising money on the stock market, though new issues have slowed down this year – but private clients are becoming increasingly choosy and cost-conscious. Thus banks have to defend their market shares at home and obtain more growth abroad.

"Both tasks imply major risks and large investment sums," Mr Erke added. Banks are having to compete harder for funds and customers. They are also combing rigorously through their operations to save costs where possible. Banks' productivity in the dense German banking network is only 64 per cent of that among US banks.

In the past, German banks could rest easily on a loyal customer base and a risk-averse corporate culture financed by bank debt, says Standard & Poor's, the debt-rating agency, in a report on German banking. This has often been underpinned by banks' big stakes in industry and seats on companies' supervisory boards.

But all that is altering rapidly. Margins are coming under pressure, foreign banks are making greater incursions into traditional lending and other business and German institutions are buying in expensive investment banking and other skills. At the same time, "shareholders are becoming less willing to accept the kind of return on equity and dividends that German banks have historically produced," Standard & Poor's analyst Michael Klotnik says.

Hence the increasing references by German banks to their greater accounting transparency and emphasis on shareholder value. Deutsche has led the way in adopting international accounting standards (IAS), which give banks less freedom to hide profits and reserves than in the more conservative, creditor-oriented German system. Both Deutsche and Dresdner, which also disclosed more details, revealed huge hidden reserves.

Commerzbank, No 3 among private sector banks, has not adopted IAS but opened up more when announcing its 1995 results. In doing so, it made clear that its domestic profits were inferior to those earned abroad which now account for some 70 per cent of the total. Martin Kohlhaussen, the chairman, admits something has to be done about this.

Commerzbank was a pioneer in money market funds and direct banking in Germany – although Citibank of the US was first in the latter – realising that new customers could be obtained only by offering innovative services at reasonable cost.

"The structure of German retail banking will change even more," Mr Kohlhaussen says.

Yet he does not think foreign banks have it all that easy in Germany, where the myriad savings banks have big slices of the retail and corporate lending markets. "I wouldn't like to be in the position of a foreign bank in Germany." German banks, he believes, have to offer ever more attractive products to keep up with the market. "We have to comply with customer demands. It's not up to us to educate our clients, they educate us."

Shareholders are also playing a bigger part in the educational process. It is under the pressure of their sharp scrutiny that big German banks are pledging themselves to earn better returns on their capital. Thus jobs will decrease and branches will shut as institutions try to squeeze more profits from their domestic operations while building up other, often more volatile, operations.

But mass branch closures do not look like being part of the restructuring process, according to SMH. "While such a move would reduce personnel and capital costs, it would probably cause greater damage to a bank's reputation." Branches will become more focused in dealing with customers' needs, however. This will mean offering more advice in such areas as personal finance and property. "Only a few branches will remain that will attempt to be financial supermarkets, providing all things to all people."

German banks in the UK: by Nicholas Denton

New invasion of London

Ronaldo Schmitz: Deutsche Bank led the way in 1989

Since 1989, German banks have been stepping up their offensive in investment banking

The City of London has long been something of an offshore financial centre for Germany. Even the most English of merchant banks – Schroders, Kleinwort Benson and S.G. Warburg as it was originally titled – betray in their names the German origins of their founders.

Now there is a new influx, not so much of people, but of capital. All the largest German commercial banks are acquiring or building investment banking businesses in London.

This modern German build-up dates back at least to 1989, when Deutsche Bank paid £950m to acquire Morgan Grenfell, one of the leading advisers on takeovers at the time. In the same year, Bayerische Hypotheken-und Wechsel-Bank took a 50 per cent stake in Foreign & Colonial, the UK fund management company. In 1993, Berliner Handels- und Frankfurter Bank of Germany (BHF-Bank) joined Credit Commercial de France to take a 90 per cent stake in Charterhouse, a mid-sized UK merchant bank.

But the decisive step was made by Deutsche Bank in 1994. It had given John Craven and the rest of the Morgan Grenfell management a large measure of autonomy at the time of its initial acquisition.

But Hilmar Kopper, chairman of Deutsche Bank, and Ronaldo Schmitz, the board member responsible for investment banking, became increasingly conscious of the bank's weakness in international equities.

It was clear, for instance, that Deutsche Bank would have to cede to Goldman Sachs the lead international role in the privatisation of Deutsche Telekom. After five years of this standstill, it decided to integrate Morgan Grenfell with Deutsche Bank's own investment banking operations, base the combined organisation in London, and build up an equities operation.

Where Deutsche Bank leads, other German banks follow. In 1995, Commerzbank acquired 75 per cent of Jupiter Tyndall in a deal valuing the UK fund manager at £174m. Dresdner Bank, Germany's second largest commercial bank, acquired Kleinwort Benson for £1bn.

The German regional banks are following their national competitors. In January this year, Westdeutsche Landesbank, the German regional bank which owns West Merchant Bank, paid £30m for Panmure Gordon, the UK stockbroker formerly owned by NationsBank of the US. After already investing DM100m in London, it plans to spend a further DM200m.

Further acquisitions are unlikely, largely because the UK houses that remain independent are closely held. But the expansion continues. Commerzbank, which was unsuccessful in its approach to Smith New Court last year, has now set itself on a course of expansion "under our own steam".

And Deutsche Bank is stepping up its offensive. Additional spending on investment banking, far from stabilising at the DM400m of 1995, is set to rise to DM700m this year. Deutsche Morgan Grenfell, the combined investment banking division, expects to hire a further 200 professionals in addition to the 300 it has already taken on since it embarked on expansion.

Some of these individuals have cost as much as a small acquisition. DMG is believed to be paying Frank Quattrone, the high-tech industry banker hired from Morgan Stanley, a package which could amount to $20m over three years.

So will the German banks succeed? Westdeutsche Landesbank, which prides itself on the high return on equity achieved by West Merchant Bank, is focusing on niche businesses.

The question will arise in Commerzbank's case only once it makes a big acquisition or embarks on an aggressive recruitment drive. And Dresdner Bank has yet to integrate Kleinwort Benson, despite moves to fuse the Tokyo and New York offices. The strongest German challenger to the international investment banks is Deutsche Morgan Grenfell, and it is the test case.

The results so far are mixed. The equity capital markets division, to which DMG made its first important hires, has yet to win lead roles on jumbo international equity offerings. To do so, DMG has recognised, it still needs to build up its equity research and sales, particularly its coverage of the UK.

Corporate finance has taken a step back rather than a step forward. The stress on international investment banking marginalised two of its leading UK corporate financiers, Guy Dawson and Justin Dowley, who left for Merrill Lynch. DMG promoted Maurice Thompson to the post of head of investment banking, but it still lacks M&A "rainmakers" – senior bankers with extensive corporate contacts who can bring in deals.

The global markets division, which benefits the most from Deutsche Bank's capital base and low cost of funding, has produced more rapid results. Deutsche Bank's trading revenues, helped by a recovery in bond markets, doubled to DM2bn in 1995.

Edson Mitchell, the executive hired from Merrill Lynch to head global markets, believes DMG can within 18 months be one of the top five institutions worldwide in fixed-income sales and trading.

Analysts, pointing to DMG's growing costs and the time it takes to develop equity and advisory businesses, doubt whether the investment bank will provide returns on equity that would satisfy US or UK shareholders.

But investment banking still looks attractive compared with German retail banking and corporate lending. Hilmar Kopper and his colleagues in Deutsche Bank management appear committed to spend what it takes to create a global investment bank.

And they are also committed to an institution with a style more Anglo-Saxon than German. A Vorstand member is reported to have told bankers in Frankfurt that the group wanted people with American educations.

Alex von Ungern Sternberg, former head of global markets, was dropped in favour of Edson Mitchell. Michael Dobson, who made his career at Morgan Grenfell, is chief executive and occupies the DMG seat on the Deutsche Bank board. The head of equity capital markets, Michael Cohrs, is an American.

A former DMG executive says: "At the end of the day this will be an American investment bank. The Germans are already out, soon the Brits will be. The Americans will take over."

Aside from its ownership, there may be precious little German about DMG.

Public finance: by Peter Norman

Deficit damages Emu hope

A lot needs to be done to prepare the federal states for economic and monetary union

Germany's public finances have moved swiftly from being a problem to being in a state of crisis this year.

The first sign of trouble came early in January, when, against all expectations, Bonn disclosed that the overall public sector deficit in 1995 was more than 3 per cent of gross domestic product. This meant that it had exceeded the limit the Maastricht Treaty specifies as a criterion for membership of European economic and monetary union.

The deficit, run up by the federal, state and local authorities as well as the social insurance funds, amounted to DM124bn or 3.6 per cent of GDP. It was alarmingly high for a government that only a few months before had boasted of its fiscal rectitude and started a campaign to persuade its EU partners that they should aim for deficits of no more than 1 per cent of GDP in normal times. While the federal deficit of DM50.5bn was only DM1bn above budget, the combined state deficits of DM45.7bn were well above the planned DM41.1bn.

Shortly afterwards, the Bonn economics ministry's annual report on the economy forecast a public sector deficit this year of between DM125bn and DM135bn or again around 3.5 per cent of GDP. It predicted a year of slow growth and rising unemployment.

In mid-March, with activity weakened by a harsh winter and official figures showing unemployment above 4m, Theo Waigel, the finance minister, imposed tight restrictions on government spending. These forced his departmental colleagues to seek his approval for significant discretionary outlays.

A month later, with important regional elections out of the way, the government began working on an austerity package that, with tax changes and welfare restructuring, was intended to restore health to the nation's finances in 1997 and create the conditions for more growth and jobs.

The plans, to cut spending by the federal and state governments by about DM50bn and institute savings of about DM20bn by Germany's social insurance funds next year, have triggered bowls of protest since being agreed by the parties in Chancellor Helmut Kohl's coalition government at the end of April.

Trade unions, churches and charities have claimed that Germany's social welfare system is under threat. Public service unions, faced with a demand for a two-year pay freeze, have responded with warning strikes and demonstrations. Some of the government's own MPs are unhappy about the programme. The federal states have unanimously objected to proposed tax changes, arguing that they and the local authorities will be unfairly penalised through lost revenues. The states governed by the opposition Social Democratic party have signalled that they will oppose parts of the spending package in the Bundesrat, the second chamber of parliament where SPD states have a majority.

No wonder that Mr Kohl has said his government faces its most difficult year in the current four-year legislative period ending late in 1998. Its resolve will again be tested early in July when its draft budget for 1997 will have to detail how it intends to implement many of the proposed cuts and how it plans to rein back next year's public sector deficit to 3 per cent of GDP. It will be on the strength of 1997 economic data that the suitability of Germany and other EU states to be founder members of Emu will be judged.

Theo Waigel: tight restrictions on government spending

In the meantime, underlying economic conditions continue to be unfavourable. January's forecast of 1.5 per cent real growth this year was halved after three months. Growth is now expected to be about 0.75 per cent, although with some pick up after mid-year.

The government continues to scale back its expectations of tax revenues. An unexpected DM35bn drop in tax income in 1995 was the main reason Germany exceeded the Maastricht deficit limit.

A Bonn finance ministry group of experts, which twice a year estimates future revenue trends, reported this month that overall tax income in Germany would fall to DM807.1bn this year from DM814.3bn in 1995 and therefore be DM21.7bn below the level forecast last October. For next year, the group predicted that revenues would total DM841bn, implying a shortfall of DM66.5bn, attributable to slower growth compared with the previous forecast for 1997 made in May last year. On the strength of an expected 2.1 per cent growth in nominal GDP this year, quickening to 3.9 per cent next year and 4.3 per cent per year between 1998 and 2000, the ministry's experts believe tax revenues in 1999 will be about DM100bn lower than expected a year ago.

Mr Waigel has said there is no need to change policy. However, the worsening revenue picture means the government has hardly any room to negotiate changes in the package of measures announced in April.

The financial squeeze is all the greater because Bonn has ruled out any increase in the 15 per cent value added tax before the next election. It also has to finance promised tax cuts. These include two promised reductions of one percentage point each in the 7.5 per cent "solidarity surcharge" that is added to the income tax bills of companies and individuals to help support the financing of eastern Germany. The reductions are set for the beginning of 1997 and 1998.

Another difficult tax issue is the planned abolition of wealth tax, a reform necessitated by a constitutional court ruling that will cost the federal states some DM8.5bn in revenues. An urgently needed tax reform is the scrapping of the local trading capital tax, a levy described by Mr Waigel as a "fossil" because it hits companies even when making a loss. Its removal will hit local authorities.

Germany's tangle of taxes causes considerable strain in relations between Bonn and the state governments. But there are some hopeful signs that the country's economic problems are spawning some willingness to co-operate.

The federal states now share Bonn's belief that decisive cuts are needed in public spending to restore the competitiveness of the German economy. In a decision crossing party lines, the prime ministers of the 16 states have ordered their finance ministers to prepare joint proposals for spending cuts to be discussed with Chancellor Kohl in June.

It is a step in the right direction. But more needs to be done to ensure the planned start of Emu in 1999.

How Bonn financed the 1995 federal deficit (DMbn)

Total Borrowings	168.5
Of which:	
Federal bonds (Bunds)	57.0
Federal treasury notes (for retail investors)	24.3
Promissory notes and promissory note loans	29.9
2 to 6-year federal notes	8.0
Short-term federal notes (for retail investors)	5.4
Discounted treasury bills	0.4
Medium-term tap issues	33.7
Temporary bank borrowings	8.9
Total Repayments	118.4
Of which:	
Federal bonds (Bunds)	20.3
Federal treasury notes (retail)	5.1
Promissory note loans (long-term)	3.0
2 to 6 year federal notes	26.0
Medium-term tap issues	46.0
Discounted treasury bills	1.3
Short-term federal notes	12.3
Promissory note loans (short-term)	12.5
Pre-1948 debts	0.2
Total redemptions	126.7
Less: outlays for market smoothing operations	8.3
Net borrowings	50.1
Income from coinage	0.4
Federal deficit	50.5

Source: Finance Ministry, Bonn

Asset management: by Andrew Fisher

Fight for a slice of the cake

The banks are aggressively seeking bigger shares of a growth market

In the worldwide competition to manage other people's money, German banks are becoming increasingly aggressive. Every bank worth its name, it seems, has bought, intends to buy or has linked up with a foreign asset management specialist.

Dresdner Bank recently paid $300m for RCM, a San Francisco-based fund management company. Bayerische Vereinsbank, having identified the sector as one in which it wants to become a global operator, tried to buy Oppenheimer, a big New York asset manager, brokerage and investment bank, but was overcome by regulatory problems. Commerzbank last year paid what rivals consider a high price for Jupiter Tyndall, the UK fund manager. It, too, intends to grow more in this area.

Eschewing acquisitions as too expensive, however, Bayerische Hypotheken- und Wechsel-Bank has begun a co-operation agreement with Massachusetts Financial Services of the US. MFS already works with UK-based Foreign and Colonial Management, of which Hypo-Bank owns 50 per cent. Westdeutsche Landesbank has bought Quorum, a small UK fund management company, to help it grow in asset management.

There is more activity. Big international investment houses are also pushing harder for asset management clients in Germany. Merrill Lynch of the US, for example, is doing its best to win business. So is Mercury Asset Management, the UK specialist in institutional fund management. Both put across the idea of Anglo-Saxon expertise in handling assets, especially in worldwide equity markets.

Other large and small, German and foreign, banks and investment houses are also keen to obtain a bigger slice of this steadily growing market. "Asset management is one of the few growth areas in banking," says Thomas Neisse, head of asset management at Vereinsbank. "It's clear that we have to position ourselves correctly."

Gerhard Eberstadt: "the time of the boutiques is ending"

Albrecht Schmidt, the bank's chairman, has stated its ambition of expanding its share of the domestic private banking market. The bank is concentrating its asset management businesses into a single unit and looking "with eyes wide open" for possible acquisitions. One potential prize he and other bankers see is the business which will accrue as Germans inherit an estimated DM2,600bn worth of assets by 2000.

Also bringing a gleam to bankers' eyes is the prospect of pension funds along Anglo-Saxon lines. At present, the state system – buckling under the financial strain of a stagnant economy, high unemployment and demographic shifts – dominates German pension provision, with companies topping up retirement incomes from their own schemes.

But interest is growing in the possibility of shifting pension liabilities outside companies – where they are generally held as book reserves and available for internal investment – into independently managed funds. This would require government action on the tax side, since book reserves receive preferential treatment. It would also release a huge volume of funds into the capital market, with equities likely to be the main beneficiary.

At this stage, no-one is sure how the trend towards segregated pension funds will develop. But the government is expected to act on another front – by allowing special equity-based funds to be set up for individuals wanting to save steadily for retirement to augment their basic pensions. This could also open up new opportunities for fund and asset managers.

Such funds *[Pensions-Sondervermögen]* could be a shot in the arm for foreign asset managers, says Lutz Wille, Mercury's head in Germany. "These are going to come and they will require more investment in European equities. This could help revitalise the German equity market."

At the moment, though, the main drive is to persuade more German institutions and companies to have their assets managed on professional lines under international standards of transparency, fee-charging and performance measurement. Awareness is growing, but Mr Wille says he often feels like an evangelist: "Sometimes, I have to walk around like Billy Graham."

Some companies, though, are keen to learn more about modern asset management. "People ask how to set up pension funds along US lines," says Harald Schüssler, a director of Frankfurt-based Merrill Lynch Bank. "Despite the tax disadvantages, companies are interested in learning how to do it." He thinks this type of business could initially develop among German subsidiaries of foreign concerns.

Whatever the requirements of clients, there is no doubt that the German asset management market is set for considerable change. "This will become much more of a competitive business," says Mr Wille. "More people will be fighting for a slice of an ever-growing cake."

This is what is driving German banks deeper into the market. Through its purchase of RCM, Dresdner Bank became Europe's sixth largest asset management group behind the three big Swiss banks, Germany's Allianz Insurance and Deutsche Bank.

"One of the reasons we bought RCM was that institutions are now likely to invest more, both in the US and elsewhere," comments Gerhard Eberstadt, a director of Dresdner. "Yet until now, we have not really been seen as an international asset manager. We have kept too much to the D-Mark – this was right as far as bonds were concerned but not so much for equities."

Like other big competitors, he reckons size will become an increasingly determinant factor in the market. "There will be a trend to bigger units. The time of the boutiques is ending: they can't develop the systems that the customer wants." Smaller rivals disagree, however.

In the view of Charles Bazley, head of Merrill Lynch Global Asset Management, big clients increasingly want a whole range of services from one global investment house. "The financial services toolkit is pretty full these days. So we've got to work out what's best for the client. We see this as an integrated piece of the capital market's business – at arm's length."

But while the big foreign houses are looking closely at the wealthy German market, German banks are turning their attention increasingly outside. Mr Eberstadt says Dresdner already has a good deal of non-German business for fixed interest securities investment. "We have mandates from all around the world, including Asia and south America, and including several central banks."

At Bayerische Hypo-Bank, director Martin Kölsch expresses a strong interest in emerging markets, whether in south-east Asia or eastern Europe. "This has a very high priority for us."

So big are the changes under way in Germany's asset management business that "scarcely a stone will be left unturned in five years' time," says Norbert Enste, a partner at Metzler, the Frankfurt private bank which is growing fast in this sector but has no aspirations to be a global player.

■ **Venture capital:** by Andrew Fisher

Seed finance feels the cold

A risk-averse culture is just one of the obstacles in the way of fledgling enterprises

The idea of giving a financial boost to struggling entrepreneurs – especially in the high-tech sector – and earning a handsome profit on the few who succeed is far less accepted in Germany than in the US or Britain. There is no shortage of capital, especially in the form of loans, and there are plenty of budding young businessmen and businesswomen. But putting them together to create a thriving venture capital industry has proved difficult.

The number of true venture capital companies in Germany can more or less be counted on two hands, although there are many operations (some involving the big banks) taking stakes in companies that have already passed their first financial hurdles. Federal and state programmes also exist to give new businesses a helping hand, though often not much beyond the start-up stage.

Among the venture capital leaders are Atlas Venture, Techno Venture Management (TVM), Apax Partners and Technologieholding, all with German operations based in Munich. International investment banks such as Goldman Sachs and Deutsche Morgan Grenfell are also becoming more involved.

But venture capital has yet to make a real breakthrough. The problem is basically threefold: high government taxes and excessive regulations tend to hold back new firms; there is a lack of exit possibilities, such as the US's Nasdaq stock market, to enable investors to take profits; and many small or medium-sized firms are unwilling to sell a majority of shares to investors.

Yet despite the handicaps, venture capital is gaining more attention in the business and financial community. Politicians, too, are more alert to the opportunities the sector can bring, inspired by its job creation record in the US. The debate over whether Germany still has enough innovative strength to keep industry growing has also placed more focus on venture capital.

Thus the government has been thinking hard about ways to channel more money into small enterprises. So far, the results have been meagre. However, venture capitalists are pinning more hopes on the broader policy moves aimed at lowering taxes, cutting social security costs and deregulating the economy – all of which would give companies and investors a freer environment in which to operate.

"The awareness of venture capital has certainly increased recently," says Werner Schauerte, a partner in the Dutch-owned Atlas Venture. "You can see this in Bonn. But it's one thing to formulate a programme and another thing to implement it. It takes a long time and the results are not likely to be startling."

Mr Schauerte's fellow partner, Rolf Schneider-Günther, believes politicians should concentrate on improving overall conditions for business, especially on the tax side. Corporate and other taxes can take around 60 per cent of profits in Germany. "There should be tax advantages for young businesses in Germany to give them time to get properly established."

Although Germany is generally regarded as trailing the rest of the world in such new sectors as biotechnology and information technology, there are plenty of small firms in these areas. Few have the potential to become significant players, but there have been notable successes. Yet by US standards, the financing provided in the form of venture capital is feeble.

Mr Schauerte points out thet in the US, some $5bn is invested every year as venture capital for small and promising companies – more than half in high-tech fields and nearly half in start-up and seed finance. Around 8,000 firms that have been financed through venture capital create 200,000 new jobs each year. By contrast, the German figures are tiny. "In Germany, there is hardly any venture capital available," says a study produced by two German management consultancies, Baumgartner and Partner and Mackewicz, Degen and Partner. "Frequently, up to 90 per cent of companies looking for capital give up at the first attempt."

The total venture capital portfolio in Germany is put at DM5-6bn invested in nearly 3,000 companies, according to figures from the German venture capital association (BVK). But much of this reflects funds to help companies expand rather than true seed or start-up financing, which totals only around 7 per cent of this figure, or about DM450m. According to Mr Schauerte, last year only DM114m was invested as seed and start-up capital in Germany, though funding of more established businesses raised total investments to around DM1bn.

One reason for the lack of dynamism is the over-enthusiasm of the late 1980s in which many investors burned their fingers. "People were rather blue-eyed after looking at the US," says Mr Schauerte. There were plenty of technology-oriented companies in Germany, but few had proper marketing or management experience – "people invested blindly in technology".

Venture capital has yet to make a real breakthrough in Germany

In a country where the number of quoted companies is less than half the UK total, lack of exist possibilities is another difficulty. "This is one of the biggest problems for venture capital companies in Germany," says the German banking association. Only a small proportion of sales of shareholdings by venture capital and other investment companies takes place on the stock market. Most are through sales to other companies or back to the owners.

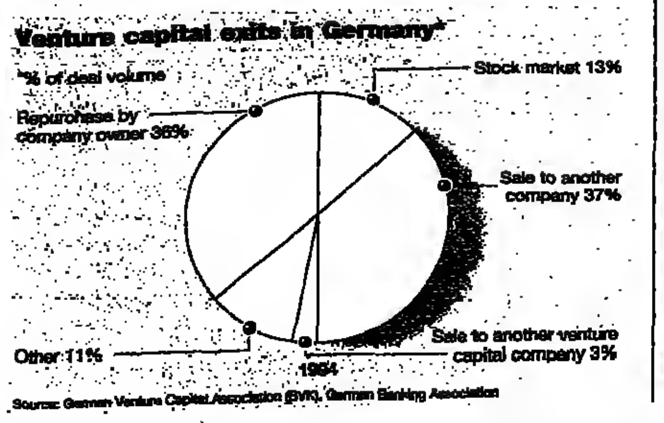
The banking association says only between 10 and 20 per cent of investments by venture capital companies are real successes, with up to 30 per cent being failures. The rest carry on in business, but do not produce exciting returns. Since sales through the stock market provide the best exit prices, the inadequacy of this ronte in Germany is a big disadvantage.

Efforts are being made to rectify this. Dentsche Börse, which runs tbe Frankfurt stock exchange, is planning to beef up the market in smaller companies. Efforts to set up Easdaq as a European version of Nasdaq could also provide an answer. Altbough some German bankers are sceptical, Detlef Mackewicz of Mackewicz Degen feels Easdaq could be of value. "What the UK does first [in using Easdaq], others will copy," he says.

If all the efforts on the tax, legal, stock market and corporate side do bear fruit, the German venture capital scene could look very different in a few years. Biotechnology initiatives are moving ahead, led by the Bavarian state government's commitment to scientific research. "There is a fast developing entrepreneurial biotech sactor," says Ernst & Young, the management consultancy.

As yet, though, most sucb businesses are very small. "Often, they are not proper firms or are not suitable for venture capital," says Mr Schneider Günther. Moreover, Germany lacks the pool of management talent available in the US to nurture start-ups and early stage companies.

Business angels, successful entrepreneurs who help fund new ventures, are also fairly tbin on tbe ground. Anglo-Saxon type pension funds, a large source of funds elsewhere, are still a small part of the German financial scene. Thus the obstacles are many.



Source: German Venture Capital Association (BVK), German Banking Association

■ **Stock options:** by Wolfgang Münchau

Few signs of the 'fat cat'

Many companies remain resistant to the idea of using share schemes to motivate managers

German attitudes towards money and wealtb are currently snbject to potentially far-reaching change. In a country where wage differentials between top executives and middle managers and between qualified and unskilled workers are among the lowest in the world, some companies are now trying to break free, moving towards performance-related pay, including executive share options.

Daimler-Benz and Deutsche Bank caused a great deal of surprise earlier this year when tbey introduced executive stock options for their senior management. The intention is to ensure that management and shareholders pursue the same interests, but also to offer salary packages that are internationally more competitive.

A Deutscbe Bank manager said that the existing renumeration packages were insufficient to attract first-rate international bankers. Although top German bankers receive relatively generous basic salaries, their total pay packages are generally lower than those of their American counterparts, because they contain no performance-related element.

Yet, the rush towards options must be seen only as a first – even, perhaps, a timid – experiment. Deutsche Bank has yet to give details about tba structure of its options plans, but at Daimler-Benz the scheme is modest and highly unlikely to give executives multi-million D-Mark salaries. One board member calculated that on a reasonably optimistic assumption about the share price, the package mey be wortb some DM60,000 per annum – hardly enough to change the way execntives manage their company. Furthermore, basic pay will not be going down after the introdnction of the share options, a sign that management does not entirely trust the process yet.

Although the packages are modest, the introduction of executive stock options at two of Germany's best-known companies is likely to reverberate across the German corporate sector. They form part of the change from a culture of co-determinabon and the pursuit of multiple corporate gosls towards the acceptance of shareholder value as the guiding corporate principle.

This change in attitnde signals what may turn into a profound upheaval in corporate customs and governance. It will take time for German executives to earn multi-million D-Mark salaries, but it may take more time still for share options packages to find a wider eceptance in German society. At Daimler-Benz, trade union representatives vigorously opposed tbe move. A manager who stands to make millions if the share price moves up, may be more keen to adopt restructuring measures than a manager with a fixed pay, they argued.

An alternative method of linking executive pay to share price performance has been introduced by SGL Carbon, the carbon and graphite groop. Profit-related rewards already account for up to 50 per cent of total pay but, in addition, the company is introducing what it calls a long-term incentive plan. Under this plan, the top 20 executives receive extra income from a special fund, as long as the company achieves annual profit growth of et least 5 per cent, with a return on capital employed of at least 20 per cent.

The idea of long-term incentiva programmes is to combine Germany's traditional emphasis on long-term planning with a more hard-nosed shareholder value orientation. Despite the trend towards shareholder value, German managers remain long-termist in their perspective. Although the definition of "long-term" has been changing – perhaps denoting a few years rather than a whole generation – the idea of having their performance measured quarterly remains anathema to most executives.

As well as performance-related pay elements, SGL Carbon is introducing a stock options plan that is similar to tbose at Deutsche Bank and Daimler-Benz.

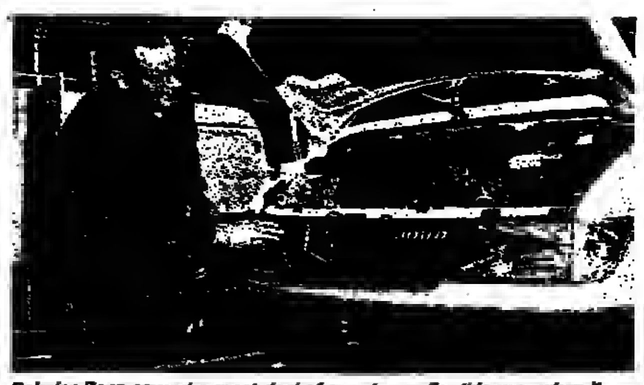
The rush towards stocks options comes despite frequent claims that German corporate law does not permit, or at least encourage, sucb alternative forms of renumeration. Stock options certainly require some unusual financial engineering – Daimler-Benz, for example, will not issue stock options directly, but via convertible bonds.

Others have argued against stock options on the grounds that German tax law is too inflexible. Stock options generally throw up the problem of defining the point at which a profit arises. But in Germany, as in other countries, the trend has been to tax profits when they fall due; in the case of options, at the time wben they are exercised. Income from options is theoretically subject to social security payments, but since executive pay usually exceeds the upper limit for social security contributions this problem does not arise in practice.

With the introduction of stock options or other forms of executive pay linked to performance, companies are now more keen to introduce strict and clearly defined targets for return on capital employed. Downsizing itself from an integrated technology concern into a transportation company, Daimler-Benz is getting rid of divisions that do not meet the self-imposed performance target of e return on capital of 12 per cent.

Chemical and pbarmaceutical companies are publicly pondering the benefits of demergers, a concept that until recently they would have dismissed out of hand. More companies are introducing the stricter and more sharebolder-friendly US accounting rules.

As German companies are becoming more international, their financial culture is also changing rapidly. This change is part of a wider shift in public attitudes towards money and finance. Large privatisations, such as the forthcoming share sale of Dentsche Telekom and a growing number of initial public offerings, are slowly turning Germans from a nation of savers into a nation of shareboldars. But the sharply divided vote in the supervisory board of Daimler-Benz over the issue of executive stock options should also serve as a reminder that this transition will be far from smooth.


Daimler-Benz caused a great deal of surprise earlier this year when it introduced executive stock options for its senior management

The bond market: by Conner Middelmann

Bundesbank grudgingly relaxes stance

Competition in Europe is forcing the adoption of long-resisted innovations

The prospect of increased competition among Europe's financial centres with the creation of a single European currency has sparked a frenzy of innovation in Germany's bond market, ushering in long-overdue reforms.

The Bonn government has come to realise that if Germany is to play a significant role on the European financial scene after 1999, it must act to bring its capital markets in line with its neighbours by revamping instruments and market practices.

And even the Bundesbank, which has always prided itself in its fierce independence from any political or commercial interests, is grudgingly ushering in bond market innovations to help boost Germany's regional competitiveness.

In a crucial concession to Bonn and the financial markets, it recently relaxed its hitherto staunch opposition to money-market instruments - which it always argued would hamper its monetary policy management – by signalling that it is prepared to accept the issuance of debt with maturities of less than one year by the government - albeit a limited amount.

The Bundesbank had warned for years that financing long-term public-sector deficits at the very short end of the yield curve would foster a short-termist attitude that runs counter to Germany's tradition of long-term price stability. Moreover, it has always jealously guarded its independence of action in the money market and has feared that treasury-bill issuance by Bonn might increase government interference in the monetary policy-making process, since changes in short-term interest rates by the Bundesbank would directly affect Bonn's funding costs.

"The Bundesbank's critical attitude towards the short-term financing of long-term credit demand is widely known [and] our reservations, based on monetary policy considerations, remain in place," Mr Johann Wilhelm Gaddum, vice-president of the Bundesbank, said recently. However, he conceded: "We see, of course, that the transition from the D-Mark towards the Euro creates a new situation... We will have to examine how to adjust to this development." As a compromise he suggested the creation of a short-term market that would be large enough to operate efficiently, yet not so large as to destabilise monetary policy.

The move comes after years of lobbying by Germany's banking and fund management industry for a more developed, liquid yield curve ranging from short-term treasury bills to 30-year bonds.

In its latest annual report, published this month, the German Banking Association, which represents the private sector banks, issued an urgent plea for the reform of the German capital market ahead of European Monetary Union. Arguing that Germany would lose its greatest asset - the D-Mark – with the advent of Emu, the association warned that the country would be left with no advantages over its neighbours unless its capital market were overhauled – fast.

"Germany can only remain competitive in a unified European financial market if it can offer competitive products," it said.

It also warned that, as long as short-term paper was not available in sufficient volume, a well-rounded capital market could not develop: "There is a danger that Germany will continue to decline in attractiveness as a financial centre. London and Paris offer a complete interest-rate spectrum. If Germany's financial market deficits are not remedied quickly, there is little hope of developing the necessary infrastructure and know-how for short- and long-dated bonds before the introduction of a single European currency."

Most European countries regularly issue money market debt, highlighting Germany's competitive disadvantage once Emu takes effect. "If Germany doesn't offer money market instruments, international investors will go to those markets that do," says Mr Christoph Anhamm, bond strategist at Union Bank of Switzerland in Frankfurt. "But instead of trading just in short-dated instruments, they might end up doing their major business there - which would be a great loss to Germany."

The Bundesbank is expected to announce the issuance of six-month money market bills as soon as the third quarter. These bills, sold at a discount to their par value, are expected to be issued at quarterly auctions. The Bundesbank is not expected to undertake market-smoothing operations – partly to avoid any impression that it is using the bills to signal monetary policy intentions.

The government has already allowed for DM50bn of gross issuance of bills in its budget, which means that around DM20-30bn would be outstanding at any given time – a volume the central bank is thought to find acceptable.

The Bundesbank has also expressed an interest in issuing two-year fixed-rate notes – Schatzanweisungen. That would provide an important benchmark in a market where the shortest maturity of tradable bonds currently issued by the government is five years.

In return for accepting the issuance of money-market paper, the Bundesbank is likely to press Bonn for more issuance at the very long end of the yield curve – the 30-year sector, which is also much better-developed in other European markets.

The German government last issued 30-year bonds more than two years ago when yields were close to bottoming; since then, that part of the yield curve has all but dried up.

"The issuance of 30-year bonds, or the increase of existing issues, should not be neglected – even if the volume is low," Mr Gaddum said recently.

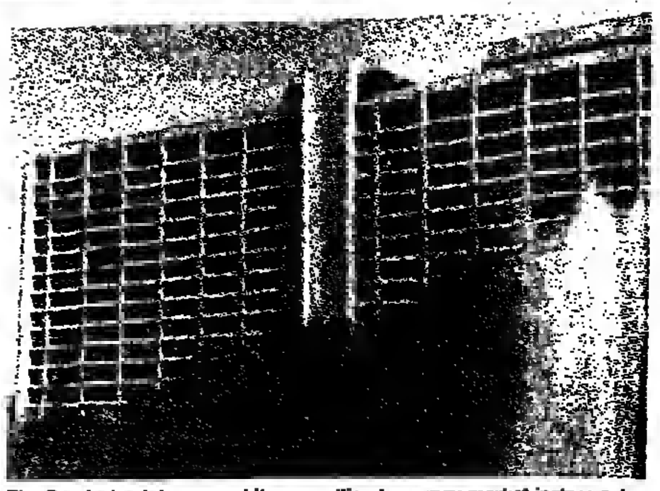
The Bundesbank has also been exhorting Bonn to concentrate federal funding and the financing needs of its special funds – such as the German Unity Fund or the Fund for Inherited Debt (Erblastentilgungsfonds) under one roof, in order to boost liquidity all along the yield curve.

There has even been talk of making government bonds strippable – where a bond is separated into its individual coupon and principal payments, which can be separately held and traded in their own right as zero-coupon bonds.

The benefits to the government of these innovations are likely to be substantial, if nothing else because of the cost savings they represent.

"It is in the interest of the government to establish an efficient market, because the more liquid, transparent and professional it is, the cheaper over the long-term the funding should be," says Mr Werner Rüppel, bund market strategist at Kleinwort Benson Research, the research arm of Dresdner Bank in Frankfurt.

For instance, the current steeply upward sloping yield curve means that because of the 315-basis-point gap between six-month Fibor and 10-year yields, Bonn could save some DM600m each year in interest payments, he says. Likewise, if the yield curve is inverted, a liquid 30-year sector would enable Bonn to get the cheapest funding at the long end.


The Bundesbank has eased its opposition to money-market instruments

Investors are likely to delight in the creation of money-market paper. German money market funds, which were first permitted – again grudgingly – by the Bundesbank in August 1994 have suffered from a lack of supply, amid a dearth of high-quality floating-rate notes or commercial paper. International central banks, which were keen buyers of the Bundesbank's previous, short-lived experiment with money market bills two years ago, are also likely to show lively interest.

With only 18 months until the start of the first stage of EMU, observers say Germany's Big Bang will be a race against time. However, some are confident Germany will make it.

"I'm optimistic that Germany will attain an international standard very soon," says Mr Urban Gajewski, head of money market securities at Commerzbank in Frankfurt. "The most important thing is that liquidity will be maintained - there is a lot of demand out there, but the government will need to commit itself to regular issuance if that interest is to be upheld."

PROFILE Ernst Welteke

Thick-skinned banker on thin ice

Ernst Welteke has exchanged the hurly-burly of politics for the complexity of central banking. As president of the regional central bank of the state of Hesse – in which Frankfurt is located – he both sits on the policy-making council of the Bundesbank and plays an important role in promoting the interests of the financial community.

To him, weighty issues such as European monetary union, German capital markets and monetary policy are now part of everyday life. The regional central bank (Landeszentralbank in Hessen), which handles payments of some DM600bn a day, is a key part of Germany's central banking system, radiating from the Bundesbank on the city's outskirts.

After four years as Social Democrat (SPD) minister of economics and then finance in the Hesse state government in Wiesbaden, Mr Welteke, 53, took up his present position in April, 1995. He says he enjoys the change.

Banking holds fewer daily irritations: "In politics, you have to take account of the media – more than in business – but you also have to deal with the opposition, parliament and the party organisation."

Dealing with bankers can have its sticky moments, though most talking is done behind closed doors. Mr Welteke says he is concerned to help promote the concept of Finanzplatz Frankfurt (Frankfurt as a financial centre), but not to accede to every demand from the banks.

"I don't agree with everything the financial community asks for. We have to see if demands are justified or not," he says.

Being confronted with demands that it should do more to promote German financial markets is a problem the Bundesbank faces as a whole.

"These demands are not easy to meet. Such a role can collide with the basic task of the Bundesbank to keep monetary conditions stable and preserve its independence and neutrality," Mr Welteke says.

Germany's federal structure, however, means that the way the financial community's objectives are viewed may differ from region to region. "Although Finanzplatz Frankfurt and Finanzplatz Deutschland are largely synonymous, they are not identical," Mr Welteke explains. "The way we regard banking developments in Frankfurt is not always the same as the view from, say, Hamburg or Munich."

When necessary, Mr Welteke is prepared to stick his neck out. Last November, for example, he urged the Bundesbank to drop its opposition to government issues of short-term debt. At a meeting with the foreign press, he said this was necessary to make Germany more competitive as a financial centre ahead of Emu when the D-Mark would be replaced by the euro.

The Bundesbank is now reconsidering its position on debt with maturities of under a year. But at the time, it rapped Mr Welteke over the knuckles.

According to Mr Welteke, short-term paper attracts interest from institutional investors and would reduce financing costs. Mr Welteke, however, supports the Bundesbank view that long-term issues should take precedence for reasons of monetary stability. "The weight must remain on the long-term side. Short-term issues must be limited in volume but sizeable enough to provide a market," he says.

He admits that without the prospect of Emu, the matter may not have arisen: countries such as France already issue short-term paper and Germany could, therefore, lose out after the single currency is introduced. "I don't know if we would take this position if we did not know there would be a short-term market when the euro comes," he says.

Mr Welteke also sees the need for moves in other areas. While stressing the benefits to Germany of the stable D-Mark, the Bundesbank's status and a high savings rate, he says that: "globalisation, the revolution in technology and changing investment behaviour bring huge pressures for change".

These forces highlight structural problems such as Germany's low stock market capitalisation compared with other countries. "We need more quoted companies," Mr Welteke says. "We have certain problems with the links between banks' stakes in industry, their use of proxy votes [at annual meetings], their loans to companies and personal links. One can ask if all this is favourable."


Ernst Welteke: when necessary he is prepared to stick his neck out

To his neighbours in the big commercial banks, these are sensitive points. But Mr Welteke has kept some of his politician's thick skin. He may well continue to need it.

Andrew Fisher

■ **Mortgage bonds:** by Conner Middelmann

Big and perfectly reformed?

The Pfandbrief market has been revived, but there are some clouds on the horizon

Until a year ago, any mention of Pfandbriefe – bonds backed by public-sector or mortgage loans – would have provoked little more than a stifled yawn among international investors.

However, a series of sweeping changes in the way these instruments are issued and traded has added a new shine to the 200-year old market.

"In the early 1990s, the market was so illiquid that investors preferred government bonds and eurobonds, and the resulting rise in the yield premium of Pfandbriefe over bunds eroded the competitive position of mortgage banks by raising their funding costs," explains Mr Friedrich Munsberg, deputy treasurer at Frankfurter Hypothekenbank Centralboden.

Considering that the Pfandbrief market is larger than the market in government bonds (bunds), this was indeed alarming. So, Germany's banks – until recently the only underwriters and traders of Pfandbriefe – got together and hammered out a list of reforms to revive the flagging market. This resulted in three significant innovations:

● Late last year, the German Stock Exchange launched an electronic Pfandbrief trading system, IBIS-R, to make the market more transparent.

● In April 1995, the Association of German Mortgage Banks, in conjunction with Bloomberg, introduced a Pfandbrief price index (PEX) and a Pfandbrief performance index (PEX-P).

● Most importantly, a new instrument was born: the Jumbo Pfandbrief. While retaining the advantages of traditional Pfandbriefe, jumbos are more liquid and larger than the rest, and have been targeted at international investors as well as the traditional, domestic clientele.

Pfandbriefe are collateralised bank bonds that may only be issued by 50 German credit institutions: 33 private mortgage banks and 17 public-sector institutions including state banks – Landesbanks – and specialised lending institutions, such as DSL Bank or L-Bank. The bonds are backed either by residential and commercial mortgages (*Hypotheken Pfandbrief*) or by loans to public-sector entities (*öffentlicher Pfandbrief*). They are not asset-backed securities in the US sense of the word since the assets remain on the issuing bank's balance sheet. Pfandbriefe usually trade at a yield spread over bunds, although increasing liquidity has seen spreads decline in recent months.

Hypotheken Pfandbriefe are collateralised by a pool of mortgages granted by the issuing bank. The quality of cover is ensured by the fact that mortgages eligible as pool collateral must not exceed 60 per cent of a property's value.

Public Pfandbriefe are issued to fund the public sector. The loans are collateralised by one large, separately registered pool of loans to, or guaranteed by, the public sector.

All Pfandbriefe are guaranteed by their issuers and supervised by a trustee appointed by the Federal Banking Supervisory Authority who ensures that the collateral securing the issue is adequate. No Pfandbrief has ever defaulted.

The Pfandbrief market represents the largest segment of the D-Mark bond market, with a share of around 35 per cent.

Pfandbrief maturities range from two to 10 years. About 25 per cent are registered, whereas the rest is issued in bearer form. While some Pfandbriefe have been issued as FRNs or structured issues, about 90 per cent are straight bonds.

In the past, issue sizes tended to range between DM50m and DM150m, and the paper would get locked away until it matured. In the absence of market makers, investors wanting to buy or sell bonds would often be shown wide bid-offer spreads at unfavourable levels. As a result, no more than 5 per cent of the market ever went into non-German accounts, observers estimate.

The advent of the Jumbo Pfandbrief has changed all that: bankers now estimate that up to 20 per cent of jumbo issues are held by foreigners. In less than a year, 55 jumbo issues worth some DM80bn have been launched, and bankers say there are plenty more to come. Unlike traditional Pfandbriefe, which are sold on tap, jumbos are issued via syndicates of two to six banks, which then act as market makers, quoting bid-offer spreads of five to 10 Pfennig for single transactions of up to DM25m, or, in some cases, DM50m.

Late last year, the market went a step further with the launch of a global Pfandbrief for Depfa, Germany's largest mortgage bank, which, in addition to the usual clientele, was sold to US investors under SEC Rule 144a. Rheinhyp, another large mortgage bank, is planning a global offering totalling DM2bn to DM3bn in June, and has appointed Commerzbank, Merrill Lynch and Union Bank of Switzerland to underwrite it.

While most traditional Pfandbriefe are unrated, several jumbos have been assigned debt ratings, and more ratings are expected.

Because of their secure nature, Pfandbrief ratings are often higher than the unsecured long-term ratings of their issuers; thus, Moody's rates Depfa's unsecured debt Aa3, but has awarded an Aa1 rating to its mortgage Pfandbriefe and an AAA rating to its public-sector Pfandbriefe.

To make jumbo and global Pfandbriefe even more accessible, there are plans to standardise issue sizes, coupons, issuance and listing procedures and documentation. A repo market for Pfandbriefe is also developing. All this, it is thought, should prepare the ground for a Pfandbrief future instrument – something the banks and Germany's futures and options exchange DTB, are actively considering.

However, according to Mr Munsberg, who chairs a committee examining the issue, "the market is not yet ready for a Pfandbrief future – if it is launched too early, it might go the same way as the Buxl future [the DTB's 30-year government bond future that had to be abandoned late last year due to a lack of deliverable bonds]". Mr Munsberg says the jumbo Pfandbrief market needs to have a deliverable paper total of at least DM70bn to DM80bn before a futures contract should be attempted.

Jumbos have even begun to eat into the eurobond market, a traditional capital-raising domain for German banks. "Some Landesbanks used to be huge eurobond issuers, but that business could shift increasingly into the Pfandbrief sector," says Mr Christoph Anhamm, bond strategist at UBS in Frankfurt.

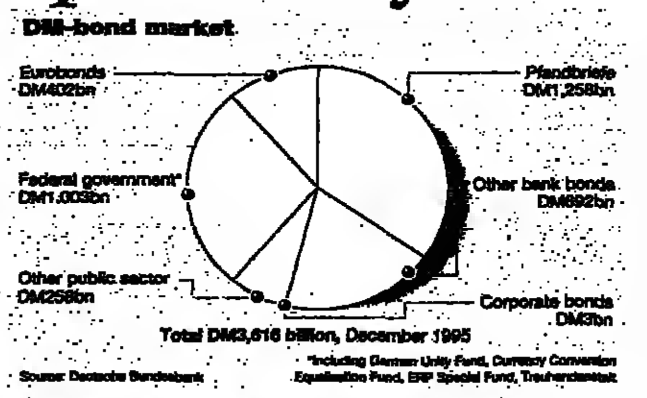
However, amid all the good news, there are clouds on the horizon, some of which have drifted over from Brussels.

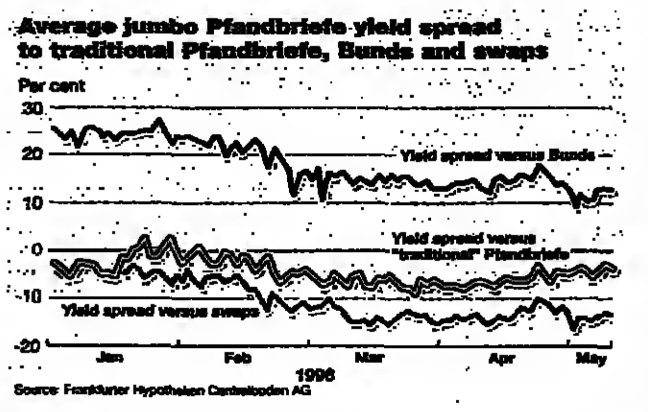
In preparation for European monetary union, the EU Commission has suggested making all mortgages in Europe repayable ahead of their redemption date. While this is already possible in some countries, like the UK, it is not in Germany, where mortgage loans cannot be pre-paid during a fixed period stipulated by the contract. Making mortgages prepayable would wreak havoc with Pfandbriefe since the legal requirement to match the maturity of a Pfandbrief with that of the underlying asset would be almost impossible to meet.

The Commission argues that mortgages should be pre-payable because long-term yields in most EU countries are likely to fall after 1999 and consumers should be able to refinance their mortgages at lower interest levels. However, according to UBS's Mr Anhamm, "long-term yields are unlikely to decline just because of Emu". Moreover, he says, "it is questionable whether the ability to make early mortgage repayments would benefit consumers over the long term: in Germany, for instance, the structure of fixed, long-term mortgage rates has been largely responsible for the stability of housing prices and rents over the last few decades".

Another risk lies in the legal position of the Landesbanks, which are guaranteed by their respective federal states. The EU Commission has argued that these banks have an unfair competitive advantage and is calling for the withdrawal of state backing.

"An abolition of the *Gewährträgerhaftung* [state guarantee] would reduce the credibility of most Landesbanks and could trigger a significant downgrade of their credit rating, negatively affecting the potential ratings of Pfandbriefe," says Mr Anhamm.





■ **Personal finance:** by Laura Covill

Managers' best kept secret

German fund managers are discreetly getting excited about a "new" product – the private pension scheme

There is an overwhelming need to increase private pension provision in Germany, but no-one is willing to tell the German public how urgent the problem has become.

Theo Waigel, the finance minister, has revealed that he is planning to overhaul the generous state pensions system by the end of 1997, and recently proposed that all retirement pensions should be made subject to income tax.

"The government is saying a little more each day," comments Rolf Passow, chief executive of DIT, the funds group belonging to Dresdner Bank. "One day Chancellor Kohl announces that total social insurance charges have to be frozen at 20 per cent (of pre-tax incomes), and the next day the media draw the appropriate conclusion – that the state pension will decline in value."

So far, the German government has stopped short of admitting what many economists and opposition politicians take for granted – that state pension contributions paid now by young and middle-aged Germans will not yield an adequate income after retirement.

Although the idea is long out of date in the UK, Germans still believe that their state pension and company pension combined will be enough to finance a generous lifestyle in old age. Mr Passow thinks that rather than try to disabuse the public, fund managers should remain discreet at this stage. After all, he says, they are not the only party involved. Three different pensions typically make up a person's full retirement provision, and the fund management community is concerned with only one: the private pension. "The other two parties – the government and the employers – have to come up with solutions, too, but they don't have any answers yet. If we say too much about the problem there'll be a huge uproar."

Although Germans have high disposable incomes and save more than most Europeans, they are less aware of the need to make private financial provision for retirement.

Fund providers are now encouraging their customers to invest in equities as a "third pillar" of retirement provision. To most Germans, however, the fund managers' rationale – that, in the long term, equities offer higher returns than fixed-income investments – is unfamiliar.

A draft scheme by the Association of German Investment Firms (BVI) proposes a new type of pensions vehicle known as "Pensions-Sondervermögen", which will invest up to 60 per cent of funds in equities and a maximum of 20 per cent in real estate. At present, German fund providers are not allowed to combine these two forms of investment in a single vehicle.

The BVI has received indications that parliament will pass legislation in time for fund managers to introduce Pensions-Sondervermögen funds by late 1996 or early 1997. The fund business is expecting an enormous increase in investment, should the recommendations become law. Mr Passow estimates that the volume of assets under management with German fund providers will increase from its current DM600bn to DM1,000bn within four years.

All this should mean a huge increase in domestic demand for equities – but initially, they will probably be those issued by German companies. Mr Passow of DIT argues that before buying foreign stock, private investors used to fixed-income securities will have to become accustomed to investing in bousehold names sncb es Volkswagen or Bayer. Only later will they have the confidence to experiment with overseas equities – despite the fact that the returns may be better than on German peper. "It would be fatal to go more than one step at a time," Mr Passow says.

Interest in international equities will also be restricted by the provision that Pensions-Sondervermögen funds will be obliged to invest at least 70 per cent of portfolios in domestic securities or real estate. Yet, after the adoption of a single European currency – perhaps as early as 1999 – "domestic" will be re-defined to include all the countries in the EMU.

DIT's funds currently have DM8bn invested in German shares and only half that figure in foreign equities. According to Mr Passow, this relationship will change as private investors in Germany grow more accustomed to equities and DIT continues to pursue its sectoral investment policy.

Last year, the equities lobby, led by Rudiger von Rosen of the German Equities Institute

> Germans still believe that their state and company pensions combined will be enough

(DAI), campaigned forcefully for tax breaks on private individuals' investments in equities. Although the finance ministry has since made clear that no tax breaks will be granted, the funds sector believes that Germans will still become more enthusiastic about eqmities.

Change will be gradual, yet fund providers in Germany are scarcely able to contain their excitement about the potential the market offers. The Pensions-Sondervermögen scheme can be applied to corporate pensions, too. It is likely to be used as the model by companies that still make pension provisions by forming reserves on the balance sheet, but in future wish to set up a pension fund instead.

The BVI's proposed scheme is similar to section 401K of the United States' Employee Retirement Income Security Act (ERISA), which allows employees to make investment decisions about their own corporate pension scheme, and to transfer it when they switch employer.

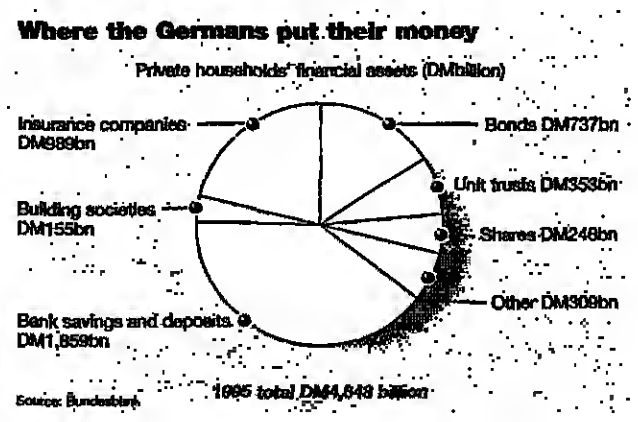
Whereas German employees now qualify for a corporate pension only after serving 10 years with the same employer, under the proposed scheme a waiting period of just seven years would be required before the corporate pension could be transferred to another job.

Since it will eliminate their responsibility to produce a specific sum in pension benefits, employers should welcome the scheme. For professional asset managers, it is highly attractive: the employer chooses a single manager to bandle investment accounts for all its employees.

"If we got 401Ks bere I'd be the happiest man in Frankfurt," says Jochen Neynaber, one of the managing partners at Schroder Munchmeyer Hengst in Frankfurt.

Otbers suggest that the rejoicing would be even greater at the asset management arm of Deutsche Bank, whose directore heed the supervisory boards at dozens of German companies.

If those companies created pension funds, Dentsche and other banks that bold directorships would be well-placed to win an appointment as the fund's manager.



■ **Insurance:** by Trevor Petch

Deregulation rocks the market

Since 1994, competition has overturned the insurers' traditional working practices

With annual premium income of DM225bn (£100bn), the German insurance market is the largest in Europe, home to the largest European insurance company, Allianz, and the world's largest reinsurance company, Munich Re. It is also the insurance market in which the changes wrought by the creation of the Single European Market on July 1, 1994 are likely to be the most profound.

Traditionally, Germany has had the most tightly controlled insurance industry in Europe. The Federal Supervisory Authority in Berlin, the BAV, exerted strict control over the operations of insurers and over pricing and policy conditions.

All this changed on July 1, 1994. Regulation of the insurance industry is now primarily through monitoring of companies' solvency, the method traditional in the UK, rather than through prior approval of the nuts and bolts of their business.

Because the market is more open to penetration from abroad than ever before, German insurers are facing new challenges of product innovation and full-price competition.

The changing market comes at a difficult time. Overall growth in premium income last year is estimated at only 5.6 per cent, down from 9.5 per cent in 1994, when there were heavy increases in motor insurance rates. Almost one percentage point of the 1995 increase resulted from the introduction of compulsory nursing care insurance, although only a minority of Germans buy their nursing care protection from the private sector insurance market.

At the same time, the slowdown in the German economy is holding back growth in life insurance. Premium income is still increasing, but the number of new policies signed annually is beginning to fall. This year, growth is expected to slow further to about 5 per cent, while some analysts predict that there will be no growth in the non-life insurance market at all.

German insurers have embarked simultaneously on a price war in both motor and industrial risk insurance. In the past, this would have been unthinkable. It had long been an open secret that low insurance rates for industrial business were effectively cross-subsidised by the handsome profits that could be expected from motor business and other personal lines.

But in the years 1990 to 1993, German motor insurers lost a total of DM6bn (£265m), not least because of a surge in car thefts for export to eastern Europe. One effect was also to stimulate increases in rates for industrial insurance as well.

In 1994, after heavy increases in motor premiums, profits for the motor sector were DM1.4bn (£625m). Last year, they were close to DM1bn more than that, despite an increase in overall premium income of only 2.7 per cent.

Deregulation of motor liability ushered in a rebate war among German insurers last year as they began to offer sizeable discounts to women drivers, say, or to owners of cars used only for low mileages. Despite the overall increase in profits from the motor sector, motor liability returned a small overall loss.

Next year, the motor market will become more unstable still. Insurers are preparing to scrap the traditional tariff structure for motor liability based on engine capacity in favour of a system based on car model and other factors. The result will be to introduce more flexibility, and more scope for competitive discounting.

Motor is also one of the areas in which foreign insurers see an opportunity to break into the market. A number are trying to exploit telephone sales, the method through which Direct Line has revolutionised motor insurance distribution in the UK. Among them are AXA of France, Zurich and Winterthur of Switzerland and Sun Alliance of the UK.

One or two German insurers have also entered the field, including Colonia (ultimately owned by UAP, the largest French insurer), and Provinzial, a regional insurer owned by the savings banks of North Rhine-Westphalia.

Although the initial costs of telephone sales operations are high, they pose a significant long-term threat to the traditional insurers, which incur high costs because of their large agency networks. Since their income is from commissions, agents also tend to be volume rather than profit oriented.

The potential for telephone sales may, however, be restricted by Germany's existing low-cost motor insurance specialists, some already selling direct.

At the same time, premium income for fire insurance is falling in absolute terms – by about 1.6 per cent last year – with income from industrial fire business unchanged at DM4.2bn (£1.9bn).

As a result of historically low premiums, German industry has tended to be insulated from the trend elsewhere towards increasing self-retention of risk, while their insurers have been insulated from foreign competition.

> Traditionally, Germany has had Europe's most tightly controlled insurance industry

This, too, has begun to change. German insurers were profoundly shocked in October 1994 when the industrial giant Siemens placed its insurance programme in the US and London markets, prompting other leading companies to do the same.

A further blow to the traditional system was struck last year when Allianz announced the introduction of its own tariff system for industrial risks, and other leading insurers of industrial risks, such as Gerling and Colonia/Nordstern, almost immediately followed suit.

These steps precipitated the collapse of the so-called Konsortialkommission system (or KoKos) – committees of insurers that determined the insurance rate for all corporate risks of more than DM1bn. Their main effect was to enable the middle range of German insurers to take a share of industrial risk business, while ensuring that the German market as a whole provided the insurance capacity that its domestic clients required. The collapse of the KoKos system is a profound threat to the position of "me too insurers".

It has also ushered in a new wave of competition. With top risks open to competition from different tariff structures set by leading German insurers and more rivalry from foreign insurers, prices are falling sharply, in some cases by 20 per cent or more.

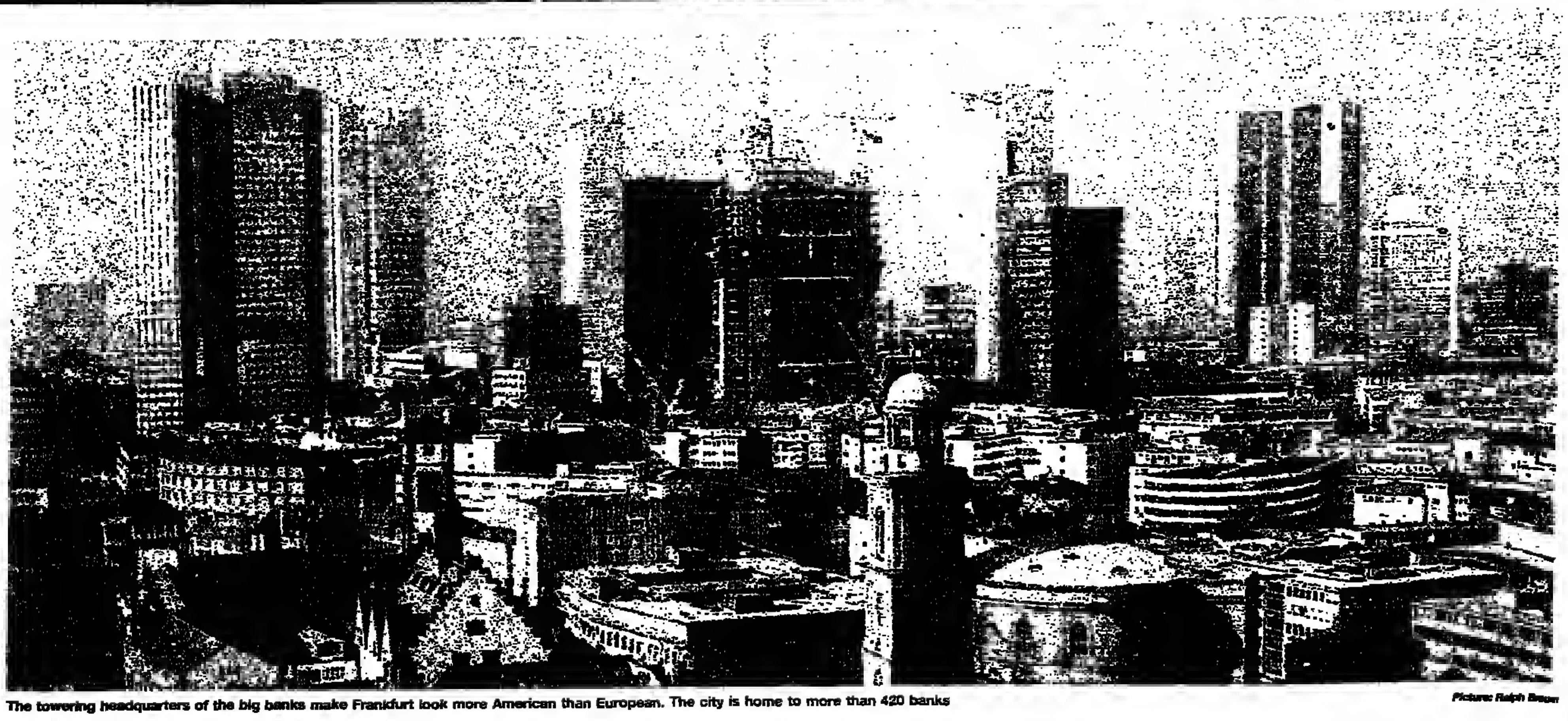
Results last year were not too bad, since there were no catastrophic storms or floods, and relatively few large fires. Even so, the loss ratio was barely changed from 1994 at an uneconomic 75 per cent of premium.

This year has already seen the disastrous fire at Düsseldorf airport, which killed 16 people and caused an estimated DM250m in insured damage.

German insurance market* (DMbn)

	Estimated gross premium 1995	Gross premium 1994	% change
Life	88.7	82.9	7.0
Private health	31.9	28.3	12.8
Property and liability	95.4	92.9	8.7
of which			
Motor	44.0	43.2	3.0
General liability	10.8	10.1	6.5
Accident	8.2	8.8	4.0
Fire	8.9	8.9	–
Buildings	5.6	5.2	8.5
Legal aid	4.3	4.1	3.0
Contents	4.2	4.1	3.0
Marine	3.1	3.1	0.5
Credit, aviation, nuclear	2.3	2.1	10
Total	218.3	206.1	5.9

* Not all figures are strictly comparable; German Insurers' Association (GDV) members only, accounting for 97 per cent of the market. Source: German Insurers' Association



The towering headquarters of the big banks make Frankfurt look more American than European. The city is home to more than 420 banks

■ **Frankfurt:** by Andrew Fisher

Germany's 'money town' comes of age

A focus on IT is confirming the city's role as an international business capital

Money dominates the skyline of Frankfurt, the compact city of fewer than 700,000 people that is Germany's financial capital.

The towering headquarters of the big banks make Frankfurt look more American than European. The striking new Commerzbank building, still topped by cranes but already dwarfing its neighbours, will be completed next year. There is little trace of the old city where Goetha was born and the Rothschilds learned the banking business that would make them a legend the world over.

But having suffered from wartime bombing, which destroyed its medieval heart, and from over-hasty and insensitive rebuilding, Frankfurt is now ona of the world's most successful cities. It is home to more than 420 banks, including Germany's three biggest commercial banks; it has Europe's second largest stock exchange and its airport, station and motorway network are among the busiest on the continent; it is one of the world's leading trade fair sites.

On top of all that, it has not one central bank but three – a real one, a regional one and one in waiting. The slabby, grey headquarters of the Bundesbank, one of the world's most powerful central banks and a byword for monetary watchfulness, sits protectively outside the city centre and has no pretensions to the dramatic architectural styles of the big private sector banks.

Far more pleasing is the post-modern building of the Landeszentral Bank in Hessen (the regional bank of the state of Hesse), a stone's throw from the banking skyscrapers in the downtown area. The LZB is part of Germany's central banking network and its head is a member of the Bundesbank's policy-making council.

Completing the trio is the body that will, if currency union finally occurs, become the most important of them all. Located discreetly at the top of a refurbished office tower, the European Monetary Institute is working hard to pave the way for European monetary union. Once Emu begins – to schedule in 1999 or later – the EMI will be replaced by the European central bank.

Frankfurt worked hard to get the EMI, which has clearly enhanced its status as a financial capital. But it is not only monetary officials and smart-suited, globe-trotting bankers that set the city's tone. Last year, *Fortune* ranked it fifth in a list of the 10 best global cities in which to do business for reasons that went beyond its money-lending and investment skills.

"Frankfurt is more than a buttoned-down money town," the US business magazine wrote. "The city is polishing its image as a technological capital. It has made its mark on the Internet."

Its airport also has a freight capacity that has led many US and other foreign companies to base distribution facilities there. In addition, it has numerous flights to eastern Europe, having responded quickly when the Iron Curtain fell. For Hartmut Schwesinger, head of the city's Business and Economic Development Corporation, this is an important asset: "Frankfurt's strength is as a gateway to eastern Europe", he says.

The German city, which is smaller than Berlin, Munich, Hamburg and Cologne, was above Paris in the *Fortune* rankings, though below London. The other cities were north American or Asian.

This is not the first time that Frankfurt, which some regard as a city with more energy than soul, has been distinguished. In 1986, it came top in a study of 103 cities carried out for the European Commission by Reading university. On the basis of income, unemployment, net migration and hotel room supply, it was judged to have fewer problems than the others.

"The image of Frankfurt abroad is better than people here believe," says Mr Schwesinger. "Internationally, Frankfurt is regarded very positively."

Much has been done in the 1980s and 1990s to smarten up the city by planting trees along pedestrian shopping streets, creating attractive museums along the River Main and encouraging a wide range of cultural activities.

For business – there are more than 3,000 foreign companies in the Frankfurt area, including 750 from the US and 260 from Japan – huge efforts have been made to speed up Germany's notoriously slow and over-bureaucratic approval procedures. Processing of office planning applications has been cut from more than a year to three months, Mr Schwesinger notes.

Since the big banks and companies can look after themselves, the development corporation concentrates on helping smaller and less internationally experienced businesses. "It's not for us to judge the economic potential of a company," says Mr Schwesinger. "They all started off by being small."

Close attention is also paid to new sectors such as telecommunications and multi-media. Deutsche Telekom has a big operation in Frankfurt and numerous software and digital post-production houses have sprung up to serve the flourishing advertising sector. The banks also draw heavily on advanced technology as they build up their computer systems to support their drive into direct banking and investment banking and to prepare for Emu.

As home to the EMI, the Bundesbank and the three biggest private sector banks – Deutsche Bank, Dresdner Bank and Commerzbank – Frankfurt's association with monetary union and its prospects is far closer than in many other European cities. "Frankfurt has to prepare for this," Mr Schwesinger says. "We have to become even more international."

Since nearly every third inhabitant has a mother tongue other than German, Frankfurt can already claim to be one of Germany's most international cities. But this is not always true in spirit. Its cultural and other amenities are not always geared to foreign tastes. Although there are English theatres and some cinemas show films in the original instead of dubbing them, non-Germans do not always feel at home.

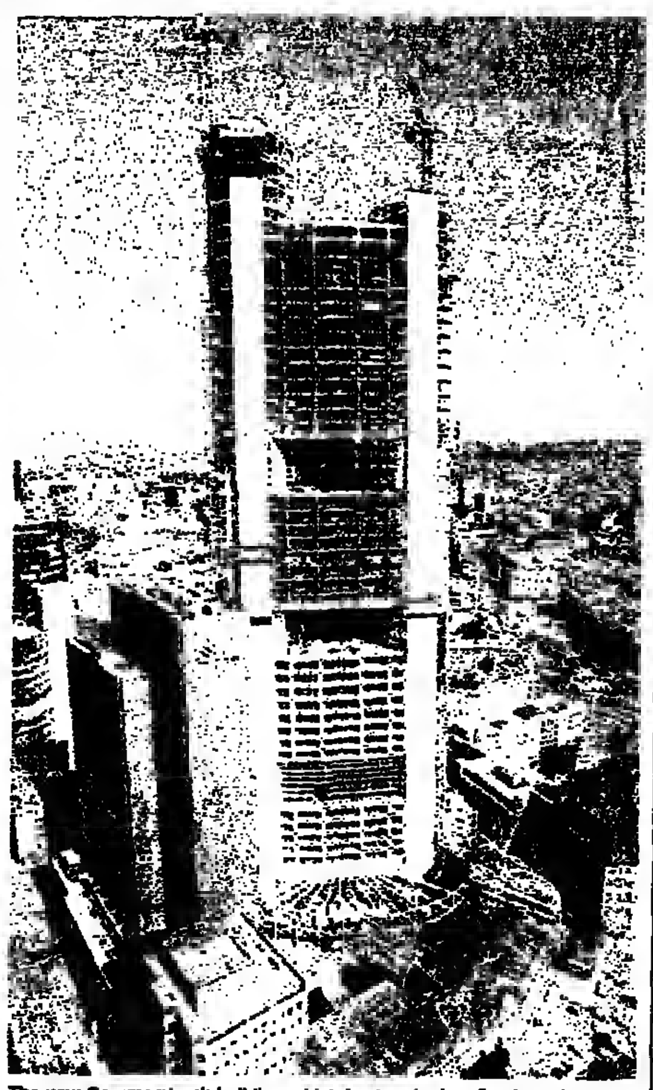
Germany's antiquated shopping restrictions hardly help, although the government is proceeding slowly with plans to relax them. Mr Schwesinger admits that more needs to be done to liven up Frankfurt, which lacks the elegant avenues and jaunty boulevards of some other European cities. He hopes city centre sites will be freed up for new shopping, restaurant and other units.

"A lot needs to be done in this area," he says. "When people leave their computer terminals, they want an alternative environment in which to meet." If Frankfurt does not do its utmost to provide that, its advantages over other cities could quickly diminish, he suggests. Not all those working in the city want to retreat northwards after work to the pretty Taunus hills, where many bankers and other professionals live. Some want to stay downtown and play.

World's 10 best cities in which to do business

1. Singapore
2. San Francisco Bay area
3. London
4. New York
5. Frankfurt
6. Hong Kong
7. Atlanta
8. Toronto
9. Paris
10. Tokyo

Source: Fortune, November 1995



The new Commerzbank building which is already dwarfing its neighbours

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday May 29 1996

IN BRIEF

Canadian banks beat forecasts

Bank of Montreal and Bank of Nova Scotia opened Canadian banks' quarterly reporting season with strong earnings advances that exceeded analysts' expectations. Bank of Montreal raised net earnings to C$281m (US$205m), or 98 cents a share, from C$228m, or 76 cents a share, a year earlier. Bank of Nova Scotia lifted earnings to C$262m, or C$1.01 a share, from C$211m, or 82 cents. Page 18

Wallenberg to make way for 'the boys'

Senior members of Sweden's Wallenberg family will gather today to mark the 70th birthday of Mr Peter Wallenberg (left), leader of Europe's most extensive industrial empire. It is also the day Mr Wallenberg has chosen to symbolise the succession of "the boys" – as he describes his son Jacob and nephew Marcus – to an increasing share of responsibility for running the empire. Mr Wallenberg will remain chairman of Investor, the family's key holding company, but is stepping down from almost all his other directorships. Page 16

Japanese electronics groups rise strongly

Japan's top four integrated electronics groups, Fujitsu, Toshiba, Mitsubishi Electric and Hitachi reported double-digit increases in profits on modest sales growth in the year to March, but warned that falling memory chip prices would be a problem in the current 12 months. Page 17

Telco jumps as vehicle sales hit record

India's Tata Engineering and Locomotive Company (Telco), the Tata group's vehicles unit, reported a 66.2 per cent rise in net profits to Rs6.3bn ($150m) for the year to March. The company, the sixth-largest truckmaker in the world, posted record sales of 181,200 vehicles, a rise of 32 per cent. Page 17

Meff to launch new bond derivative

Meff Renta Fija (RF), the Barcelona-based futures and options exchange, is to launch a new kind of bond derivative at the end of next month. The new price differential futures contract, or Diff, is designed to allow dealers to trade more efficiently the price differences between the Spanish 10-year bond future and its French, Italian and German equivalents. Page 18

Lawsuit slows Diamond Fields takeover

Inco, the Canadian nickel producer, has delayed completion of its C$4.3bn (US$3.1bn) takeover of Diamond Fields Resources, the Vancouver-based exploration company, pending clarification of a lawsuit launched by a group of Texas investors against Mr Jean-Raymond Boulle, co-chairman of Diamond Fields. Page 18

Abbey National in £140m French dispute

Abbey National, the UK home loans and retail banking group, is caught in a £140m ($212.8m) dispute with the French tax authorities over a contested leasing transaction. Page 20

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Beiersdorf	1540	+	89
Kali & Salz	248	+	15.5
Sud Chemie	835	+	20
Zanders Feinpap	100	+	8
Falls			
Commerzbank	319.5	-	13.2
Hoffmann	500	-	9
NEW YORK ($)			
Rises			
Tadiran ADR	26⅞	+	2¾
Tempilo Rands	18¼	+	2¾
Zenith Ctr	14¼	+	1⅞
Falls			
Excel Comm	100¾	-	2½
Franklin Res	53	-	3⅛
Singer	25⅞	-	5⅝
LONDON (Pence)			
Rises			
Andrews Sykes	380	+	40
Blacks Leisure	143	+	13
Coolings	215	+	20
Falls			
Redstone Tech	93	-	15
Southern Water	941	-	280
Yorkshire Wtr	690	-	53
TORONTO (C$)			
Rises			
Cascades Boats	3.45	+	0.97
Southwest	7	+	0.85
Speedware	8.5	+	1
Falls			
Falconbridge Tech	44	-	6
Rio Narcea Gld	4.75	-	1.2
SNC-Lavalin	11	-	21.5
PARIS (FFr)			
Rises			
Bongrain	540	+	14
SGS-Thomson	218.2	+	5.2
Seb SA	879	+	19
Falls			
Club Med	470	-	18.5
Cred Lyon	137.1	-	7.9
Elecnet Soc N	398	-	18.8
TOKYO (Yen)			
Rises			
Daikokuya Paper	800	+	28
Japan Syn Rbbr	764	+	57
Orient Corp	681	+	35
Ryobi	573	+	22
Seibu Railway	5960	+	360
Showa Denko	347	+	19
HONG KONG (HK$)			
Rises			
China Elegance	2.15	+	0.18
HK Parkview	2.15	+	0.15
Siu-Fung	1.84	+	0.15
Wai Kee	2.15	+	0.17
Falls			
Shangri-La Asia	10.5	-	0.55
Wang On	1.29	-	0.1
BANGKOK (Baht)			
Rises			
Berli Jucker	93.5	+	8
Pizza Co	114	+	10
Siam Tyre	382	+	24
Thai Vegetable	58	+	5
Falls			
Matichon	138	-	13
United Motor	94	-	9

New York and Toronto prices at 12:30.

Sandvik wins battle for Tampella

Swedish toolmaker squeezes out rival Svedala's FM1.4bn offer for Finnish industrial group

By Hugh Carnegy in Stockholm

One of the hardest fought cross-border takeover battles seen in the Nordic region ended in victory yesterday for Sandvik, the toolmaker, when fellow Swedish company Svedala dropped a FM1.4bn ($294m) bid for Tampella, the Finnish industrial group.

Svedala, a leading manufacturer of mining and building equipment, withdrew its offer when it was revealed that Sandvik had raised its stake in Tampella to 48.2 per cent through the purchase of a 5.3 per cent stake from Finland's Outokumpu.

With another Finnish engineering group, Rauma, holding 14 per cent of Tampella which it recently bought, Svedala conceded it could not reach its revised target of 51 per cent of Tampella.

Sandvik, chaired by Mr Percy Barnevik, chief executive of the Swiss-Swedish group ABB, used its SKr6bn ($878m) cash pile to outgun Svedala's FM10.50 a share offer. In the past week, it paid FM10.90 in a series of deals to add to the 26.3 per cent stake it bought from Norway's Kvaerner for SKr500m last month. Just before the first Svedala bid, Tampella shares stood at FM6.90. They closed last night at FM9.65.

Svedala, which argued that its approach was the only fair offer to all shareholders, at first offered only shares in its bid but later added a cash alternative. But it was frustrated by local takeover rules which did not oblige Sandvik to bid for the whole of Tampella.

Sandvik says it may move to gain a majority stake, but gave no indication yesterday it was ready to make any new offer to Tampella's other shareholders.

Most analysts said Svedala's proposal offered the strongest industrial and financial case. A merger with Tampella would have created a world leader in the manufacture of equipment for mining, quarrying, mineral processing and heavy construction. Svedala promised synergy benefits of SKr250m a year.

But Sandvik said it was determined to expand its existing industrial and marketing co-operation with Tamrock, the main division of Tampella in which the Swedish group already held a 25 per cent stake. It is discussing converting that stake into shares in the parent company – a move which would give Sandvik a clear majority in Tampella.

Sandvik produces the drill tool and bits which can be used on Tampella's drilling machines. They share many customers and both companies say their co-operation is strategically important, although the sector produces only a small part of Sandvik's turnover.

"We will shortly see how we can find new ways of felling rock," said Mr Clas Ake Hedström, chief executive of Sandvik. "It is necessary to develop drilling machines and drills together."

French insurer expected to release about $200m-worth of shares in two tranches

Axa to enlarge shareholder base with New York listing

By David Owen in Paris

Axa, the insurance group, is set to become the first French financial services company to secure a US stock exchange listing. The listing is expected this summer and should be accompanied by the release of about $200m worth of Axa shares.

The company said the move would permit it to enlarge its international shareholder base, increase its visibility on US capital markets and facilitate its access to the world's most important and liquid financial market. The shares rose FFr1.60 to close at FFr295.80.

The group, which last year generated a 20 per cent increase in net income to FFr2.73bn ($528m), has embarked on an aggressive overseas expansion programme in recent years. This started in 1991 with the $1bn acquisition of 49 per cent of Equitable Life, the third largest US life assurer, and last year it paid FFr4bn for a majority stake in National Mutual, the second largest life assurer in Australia, New Zealand and Hong Kong. International operations generate more than 70 per cent of group turnover, with the US responsible for more than 40 per cent. In March, Mr Claude Bébéar, chairman, said he regarded Axa's UK presence as "too small" but prices expected for local companies were too high.

The company said the shares associated with the US listing would be released in two tranches: a public offer of shares on the US market; and an international placement outside France and the US with institutional investors. Between 3.5m and 4m shares would be offered in all. The group expects the majority of these shares to be placed in the US.

The shares involved in the offer were acquired by Axa in the wake of an agreement reached earlier this year with Generali of Italy. This simplified a complex cross-shareholding between the two insurance groups that had been in place since 1990. The offer will not will therefore result in the creation of any new shares.

About 10 French industrial groups are already quoted in New York, but Axa, which has been preparing for the move since the end of 1992, will be the first French financial services company. Two other European insurers are already quoted there. Foreign investors hold about 22 per cent of Axa's capital.

The group yesterday said its net income for 1995 amounted to only FFr324m, rather than the FFr2.73bn reported, when it was calculated in accordance with US accounting norms. It attributed the discrepancy largely to differences in the handling of UK "with profits" contracts.

Claude Bébéar: wants to expand UK presence

Nissan returns to operating profit in Japan

By Michiyo Nakamoto in Tokyo and John Griffiths in London

Nissan, Japan's second largest carmaker, has returned to operating profits on its Japanese operations for the first time in three years and appears to be pulling out of one of the most difficult periods in its history.

However, it was still left with a net loss on a consolidated basis, mainly because of continuing problems in Europe and Mexico.

Strong domestic sales, rationalisation measures and a weaker yen helped Nissan achieve non-consolidated operating profits of Y40bn ($371m) on its Japanese operations in the year to March, compared with a loss of Y74.8bn previously. Recurring profit came to Y32.4bn, compared with a Y61.1bn loss, while net profit was Y3.6bn, against a Y61bn loss. The turnround was achieved on sales 3.2 per cent higher at Y3,518bn.

The improvement reflected a small increase in Japanese market share to 21.8 per cent. Brisk sales of new, high-end models helped Nissan lift the value of its domestic vehicle sales nearly 14 per cent.

On a consolidated basis, Nissan's net sales rose 3.5 per cent to Y6,039bn, from Y5,834.1bn. However, there was a net loss of Y88.4bn, down significantly on the previous Y166.1bn net loss.

Much of this – Y65bn – came from operations in Europe, where market conditions have become viciously competitive.

Production is about to start in the UK of a new Primera, for launch in October. Nissan is relying heavily on this to give fresh impetus to its sales in the region.

However, while Nissan Motor Manufacturing (UK), the production arm, made a net profit of £10.4m ($15.7m) last year, compared with only £159,000 a year earlier, Nissan Motor (GB), the UK sales arm, doubled its losses to £22.9m as the result of having to offer big sales incentives.

Nissan is rationalising its European operation but expects it to remain in loss this year. The company aims to break even in Europe in the 1997 fiscal year.

It still faces problems in its Mexican operations, which posted a loss of Y35bn last year due to devaluation of the peso. The company plans to expand production and expects its Mexican subsidiary to "definitely improve on an operating level".

In the US, by contrast, Nissan benefited from cost-cutting and higher margins of new models.

In the current year, Nissan forecasts that competition in Japan will mean that rationalisation efforts will be crucial to an expected improvement in non-consolidated sales to Y3,670bn and higher recurring profits of Y70bn. Net profits are expected to rise to Y50bn.

● Hino Motor, the leading Japanese truckmaker affiliated to Toyota, suffered a downturn in domestic truck sales in the second half as well as fierce competition in its main overseas markets in south-east Asia.

Sales fell 8.6 per cent to Y586.7bn, against Y641.8bn a year earlier, and operating profits were 35 per cent down at Y12.5bn, against Y19.1bn. Recurring profits also declined 1 per cent to Y12.1bn. The company forecast a further decline in sales to Y584.5bn but expects recurring profits to rise to Y13bn.

Barry Riley

Ignoring the shackles of the Pensions Act

Who's afraid of the Minimum Funding Requirement? Not, apparently, Britain's pension fund managers, even though the corporate sponsors of pension schemes will eventually have to worry very seriously about this aspect of the 1995 Pension Act.

The MFR will, in effect, impose a new benchmark related to UK equities and UK government bonds – the proportions will vary according to the maturity (that is, the liability structure) of the individual scheme – but portfolio managers are going in the opposite direction.

According to data for the first quarter of 1996 released by the performance consultants WM, pension funds have been sellers of UK equities and UK fixed interest bonds. Funds measured by WM – about 70 per cent of the pension fund industry – were buyers of £1bn of overseas equities during the quarter, accumulating nearly £3bn of extra cash.

So far, balanced managers are free to chase performance in their own way, and the MFR will not begin to bite for several years. In fact, the real impact may not be felt before 2003, when underfunded schemes will face the first topping-up deadline. But gradually plan sponsors will have to gain a better grip over strategy.

This could create problems, because in an important respect the MFR is perverse. It is supposed to control the funding risks of a scheme – to make the Pensions Act's compensation scheme workable. But by focusing on just two asset classes the MFR will potentially concentrate portfolios and thus increase the absolute volatility.

We have all the elements of a messy clash between absolute risk and risk against the benchmark. This is a familiar problem for fund managers measured against a particular benchmark, but it is now turning into an actuarial issue.

In practice, the funds appear to have cut their exposure to MFR benchmark assets by 1.6 per cent in January-March this year.

> We have all the elements of a clash between absolute risk and risk against the benchmark

Incidentally, within the overall commitment of extra funds to international equities they have cocked a snook at Wall Street, selling £1.3bn of US equities and channelling new resources into other markets.

The smaller, more aggressive, funds in the "WM 2000" universe now have nearly twice as large an exposure to the Pacific Basin and emerging markets than they have to Wall Street. Last year's bet against the US market went badly wrong, but many UK fund managers have evidently decided to double rather than quit.

All of this seems to fit with Merrill Lynch's Gallup Poll of London fund managers. That revealed bullishness about the dollar and pessimism about the D-Mark and the yen. So some deft currency management may be needed.

This brings us to the advocates of currency hedging by UK pension plans, the Pension and Insurance Strategy Group at Goldman Sachs in London. Goldman's Mark Griffin has refined his analysis of the MFR problem, and deduced that currency hedging may be one of the most effective ways of handling the clash between risk against the MFR benchmark and "asset-only" risk.

The simplest way to reduce MFR risk is to sell equities and buy more gilts. Unfortunately, this will reduce expected returns, because of the higher fixed interest exposure, and increase the portfolio's volatility. Faced with such an asset shift, scheme actuaries may require an increase in employer contributions.

Goldman Sachs has therefore simulated portfolio returns in order to assess more efficient asset allocations.

In these terms, the most powerful change would be to cut the exposure to overseas equities and switch into UK equities. Second, hedging of the remaining currency exposure in overseas equities will produce a further reduction in MFR risk. According to actuarial methodology these changes would have no impact on expected returns. The first change would increase asset-only risk, the second would reduce it.

But as the unfazed and unhedged UK pension fund managers embark upon another odyssey to the wilder and more glamorous reaches of the global equity market, it seems nothing could be further from their thoughts than the Minimum Funding Requirement.

NatWest to dispose of 18% stake in 3i

By George Graham, Banking Correspondent

National Westminster Bank of the UK is planning to sell its 17.7 per cent stake in 3i, the country's largest venture capital group, in a placing worth about £470m ($714.4m).

3i's shares fell 15p to 452p after the announcement yesterday, but have still appreciated by 66 per cent since their flotation in 1994.

NatWest is almost the last of the main banks which founded the original Industrial and Commercial Finance Corporation in 1945, to sell down its stake in 3i.

NatWest, which now runs its own venture capital subsidiary, said its investment in 3i had been highly successful, but did not represent a strategic holding.

A year ago, when Barclays, the Bank of England, Lloyds and Midland Bank said they would sell some or all of their stakes, NatWest said it planned to hold on to its shares. Since those sales, the share price has risen a further 12 per cent.

The board of 3i said yesterday that it welcomed the sale, "which would increase the liquidity of the company's equity and provide a good opportunity to attract new shareholders".

London stockbrokers have complained that the large stakes held by the banks made it more difficult to deal in 3i shares.

The sale of the NatWest stake is expected to take place shortly after the publication of 3i's preliminary results on June 6, when brokers expect the company to announce a net asset value of 407p-430p a share.

NatWest Securities, NatWest's stockbroking affiliate, and de Zoete & Bevan, the brokerage owned by BZW, the investment banking arm of rival Barclays, will market the shares primarily to investors.

They will gather orders from institutions to assess the level of demand and then set the price, effectively by auction. In a statement yesterday, however, NatWest said it also intended that private investors should be able to apply for shares through financial intermediaries.

Although the sale could raise more than £450m, London banking analysts said yesterday they did not believe the timing indicated that the bank was looking to raise capital.

NatWest has been flush with cash since the $3.5bn sale of NatWest Bancorp, its US retail banking arm, completed this year.

The boys get their turn at the Wallenberg helm

A new era dawns as the next generation takes over at the head of Europe's biggest family business

Senior members of Sweden's Wallenberg family will today gather in Stockholm to mark a significant moment in the 140-year history of Europe's most extensive industrial empire.

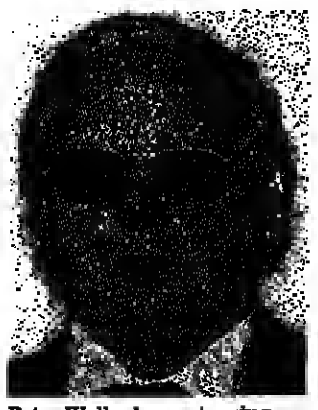
Mr Peter Wallenberg, leader of the family sphere since the death of his father Marcus in 1982, will celebrate his 70th birthday, a day that he himself has made to symbolise the succession of the next – and fifth – generation of Wallenbergs to the helm of a domain that includes such companies as ABB, Astra, Ericsson, Electrolux, Saab, Scania, SKF and Stora.

Peter Wallenberg is not retiring. He will remain as chairman of Investor, the family's key holding company which groups most of its core investments. But he has used the occasion of his birthday to step down from almost all his other directorships – allowing his eldest son Jacob and nephew Marcus to assume an increasing share of the responsibility for running the empire.

The shift to "the boys" – as Wallenberg senior calls his 40-year-old heirs apparent – comes at a time of change within the empire. It raises the question of what future the network of companies will have in an age where conglomerates are out of fashion – and the question of how Jacob and Marcus Wallenberg will manage the task facing them.

Mr Peter Wallenberg is stepping back at a moment of strength. Investor, threatened by recession and big debts three years ago, has just completed the SKr18.8bn ($2.75bn) flotation of 55 per cent of Scania, the highly profitable truck maker. As a result it has some SKr10bn in net cash. Its net worth at the end of the first quarter reached SKr80bn.

Incentive, the other principal Wallenberg industrial vehicle, has this year completed the takeover of Gambro, a leading renal care company, transforming itself from a diverse conglomerate into a group focused on the growth sector of medical technology.



Peter Wallenberg: stepping back at a moment of strength

Together, Investor and Incentive control or have dominant influence over companies with total market capitalisation of SKr600bn, or 45 per cent of the total value of the Stockholm Stock Exchange.

Under Mr Claes Dahlbäck, chief executive for the past 18 years, Investor is moving to remodel its portfolio away from its traditional emphasis on cyclical industries, such as engineering and pulp and paper, to build up its investments in growth sectors such as pharmaceuticals, telecoms, media and IT.

With offices now open in London, New York and Hong Kong, it is also looking overseas for investments, having reached near-saturation in its hold over Swedish industry.

This trend is firmly backed by Jacob and Marcus Wallenberg, who have been groomed within the empire for many years.

Jacob heads Enskilda, the merchant banking arm of Skandinaviska Enskilda Banken, the financial pillar of the family sphere. He is widely tipped to take over as chief executive of the whole bank.

Marcus, son of Peter Wallenberg's late brother Marc, is deputy chief executive of Investor and board member of a growing number of top Investor companies.

Mr Peter Wallenberg intends that the two should run the empire together – as his own father Marcus and uncle Jacob did for years. But even if the two heirs are happy to be a double-act, they are likely to face tough decisions about the empire's future.

The strategies now being pursued by Mr Dahlbäck and Mr Mikael Lilius, chief executive of Incentive, are aimed at enhancing shareholder value in their respective companies, which have historically traded at a deep discount to asset value.

But markets may demand more radical remodelling to minimise the discount. That could add pressure on the Wallenbergs – who say they prefer evolution to revolution – to divest more of their traditional core holdings in companies like the cyclical engineering stalwarts Atlas Copco, SKF, and even their 50 per cent stake in ABB, the Swiss-Swedish engineering group.

Another challenge may lie in the share structure which underpins the empire. The Wallenbergs' control over most companies in their sphere is exercised through capital shares of less than 20 per cent. Weighted voting power allows them greater leverage – and in some cases their control is enhanced by the willingness of other shareholders to allow the tight Wallenberg circle of family members and their senior executives to dominate the board.

There has been little or no challenge from other shareholders – or legislators – to this system. But deregulation has led to a big increase in foreign holdings in Wallenberg companies – in some cases more than 50 per cent of the capital.

"We haven't seen any big sign yet that international investors in Europe want to get involved in corporate governance," says Mr Colin Gibson, senior Nordic analyst at UBS in London.

"As long as the Wallenbergs manage their companies well, they buy themselves independence. But in the next 10 years I would not be surprised to see more investors – especially US investors – wanting more say in these companies."

Hugh Carnegy

Deutsche Bank ahead 32% in term

By Andrew Fisher in Frankfurt

Deutsche Bank, Germany's biggest bank, expects a further profits improvement this year after a 32 per cent rise in net income to DM770m ($499.5m) in the first four months, Mr Hilmar Kopper, chairman, told yesterday's annual meeting.

But the bank's buoyant profits news was dampened by the disclosure that Klöckner-Humboldt-Deutz, the engineering group 48 per cent owned by Deutsche Bank, had fallen into renewed difficulties. This followed the uncovering of hidden losses at a subsidiary.

The company said the losses could total "hundreds of millions of marks". Mr Kopper told shareholders the bank was holding intensive talks with KHD about solutions for the company. It was too early to say how high the losses might be.

Mr Kopper said the full 1996 result should be higher than in 1995 – when earnings advanced 24 per cent to DM2.12bn – although the year was still young and there were plenty of uncertainties. Also, he noted that the early part of this year had to be compared with a weak start to 1995.

Aside from the KHD problems, analysts said the bank's profits growth this year had stemmed mainly from financial trading and the performance of securities markets rather than a basic business improvement.

"The improvement is coming from volatile components rather than secular growth components," said Mr Robert Law, banking analyst at Lehman Brothers.

Mr Kopper said commission income rose 38 per cent in January-April and own-account trading profits had more than doubled. But interest income (after loan loss provisions) was 3 per cent lower.

Costs rose 18 per cent, although the increase was a less steep 12.5 per cent without acquisitions and the impact of the strong D-Mark. Operating profits after risk provisions were 26 per cent higher.

Expressing disappointment with domestic performance – which he said was better than last year but still below expectations – he reasserted the bank's determination to strengthen its earnings power at home and abroad. "Competition is harder than ever."

The bank intended to improve its return on equity and its cost/earnings ratio – "on an international comparison, both are still not satisfactory". It would pursue a consistent above-average return on capital. Last year, the return was 13.7 per cent before tax. Deutsche Bank has set itself a target of 25 per cent.

Mr Kopper said the investment banking unit, Deutsche Morgan Grenfell, was performing well. But more progress was needed in the US. "We know that we are not among the very biggest in North America." Thus the bank would expand internally and was continuing to hire more people there.

On the domestic banking side, he said more jobs would disappear after last year's 5.5 per cent fall to 52,000 people. Since the start of 1993, the decline has been 16 per cent. Abroad, however, jobs have been rising.

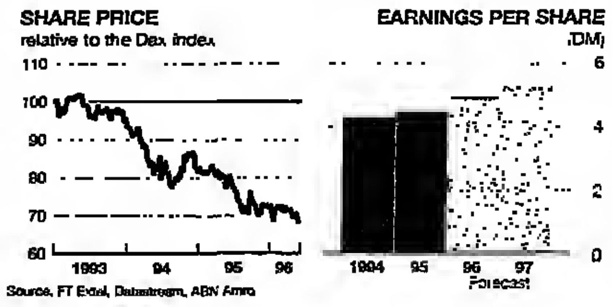
PROFILE:

Deutsche Bank

Market value: $23.1bn Main listing: Frankfurt

Historic P/E	17.74
Gross yield	3.5%
Earnings per share	DM4.5
Current share price	DM73.0

Chairman Hilmar Kopper



Source: FT Extel, Datastream, ABN Amro

Ferrero recovers from flood

By Andrew Hill

Ferrero, the family-owned Italian confectionery group, increased worldwide consolidated turnover by 7.3 per cent to Fl 7.23bn ($4.19bn) last year, and signalled its recovery from a devastating flood in 1994 which hit Italian profits. The holding company, registered in the Netherlands, does not publish figures for group profit.

However, the Italian operating company, which accounts for about 44 per cent of group turnover, announced a net profit of L100.5bn ($64.4m) against L65.6bn in 1994 when a flash flood swamped the company's production line at Alba in north-west Italy. In 1993, Ferrero's Italian operation reported a L132bn net profit.

Ferrero, which produces Ferrero Rocher and Kinder chocolates, Nutella spread and Tic Tac mints among others, has 14 production plants worldwide and 14,000 employees.

The company is also expanding in eastern Europe. Yesterday, Il Sole 24 Ore, the Italian business daily, reported that Ferrero was to invest $50m in a factory in Poland.

Ferrero is one of Italy's largest and most discrete companies, run by Mr Michele Ferrero, who founded the group, and his two sons, Pietro, in charge of European operations, and Giovanni, responsible for the rest of the world.

Over 50 years it has built a reputation as one of the most aggressively run independent confectionery companies. "They continue to do incredibly well in a market which is doing incredibly badly," said one banker yesterday.

The Italian operating company warned that for the first time since the end of the year, family food consumption had dropped, following a stagnant year in 1994. It said the situation was not forecast to improve during 1996.

NM Rothschild to advise on Banco di Napoli revamp

By Andrew Hill in Milan

The Italian treasury yesterday appointed N. M. Rothschild, the UK merchant bank, to advise it on the restructuring of Banco di Napoli, due to be approved within five weeks.

Banco di Napoli, which in 1995 reported the worst loss to data by an Italian bank – L3,115bn ($2bn) after write-downs of bad debts – must meet a series of conditions if the treasury is to provide it with up to L1,000bn of fresh capital.

The conditions include board approval of a rigid restructuring plan by the end of next month, an accord with unions on the reduction of labour costs and the involvement of other banks in the rescue.

The treasury expects Italian banks, which backed an emergency loan to Banco di Napoli last November, to contribute between L1,000bn and L1,500bn to a new plan – either through subordinated loans or debt-equity conversion.

Mr Federico Pepe, the bank managing director, is already pushing through some elements of restructuring including the sala of property, non-core share stakes and loss-making branches. The Banco di Napoli board is to meet today to discuss progress on the plan.

Mr Pepe was in London last week to persuade foreign creditors to agree to the voluntary liquidation of Isveimer, Banco di Napoli's medium-term loans subsidiary. He said he was confident the deadlines would be met: "The unions understand that this is the end of an era. The need to bring the bank back to normal conditions of productivity and profitability must involve a revision of the systems of pensions and salaries for the employees."

Mr Carlo Azeglio Ciampi, the new treasury minister, has approved a decree renewing the previous government's commitment to rescuing the bank. One of the important changes is that the treasury will no longer take over the shares of the bank which belong to its controlling shareholder, a charitable foundation. Instead, the foundation will surrender voting rights to the treasury, to give it effective control over the shareholder assembly.

N. M. Rothschild is expected to provide an independent opinion on the restructuring plan. The bank has already advised Banco di Napoli on the sale of its northern Italian branches. The other adviser close to the Neapolitan bank is J. P. Morgan, which hosted last week's meeting of Isveimer's foreign creditors in London, and advised Mr Pepe on the restructuring when he took over last year.

NEWS DIGEST

Fortis posts 29% rise in first quarter

Improved results in its core Benelux banking operations helped Fortis, the Dutch-Belgian financial services group, lift first-quarter net profit by 29 per cent to Ecu 157m ($128m). On the basis of this performance, the company underlined its earlier forecast that net profits for the full year will be "clearly higher" than those of 1995, when the group saw profits rise by 15 per cent to Ecu 631m.

Fortis cautioned, however, that the "exceptionally high percentage increase" was attributable to the relatively weak first quarter last year, particularly in the banking sector. Nevertheless, it expects a continued improved performance in banking and in its insurance operations in the Benelux and in Spain to bolster further growth.

Total income at the group, jointly owned by Fortis Amev and Fortis AG, rose by 9 per cent during the first quarter to Ecu 4.8bn, of which roughly half was generated by organic growth. The operating result was ahead 25 per cent to Ecu 243m. Both parent companies expect higher per share earnings for 1996.

Fortis AG, the Belgian insurance arm, said it planned to issue 1m new shares in connection with an optional stock dividend on its 1995 earnings. Shareholders can buy one new share for every 41 No. 8 coupons presently held – at a price of BFr3,444 per share. This represents a discount of some 17 per cent on yesterday's closing price of BFr4,180. The new shares will be eligible for a dividend from January 1 1996.

David Brown, Amsterdam

Philips in pay-TV buy

Philips, the Dutch consumer electronics group, plans, together with its joint venture partner in pay-per-view TV, the recently privatised Royal PTT Nederland (KPN), to take a combined stake in Nethold Benelux, the privately-owned provider of pay television. The stake will "not exceed 40 per cent".

Earlier, Philips and KPN confirmed plans to join forces with Nethold and for the launch of digital TV in the Benelux countries this summer by exchanging their joint venture, TeleSelect, for a shareholding in Nethold Benelux. The merger will bring the Benelux one step closer to adopting a TV set-top "black box" technology standard owned by Nethold. This technology not only decodes encrypted programming but also measures household usage. It helps to manage billing to consumers and payments to providers of digital services.

David Brown

Italy to examine Heineken buy

Italy's antitrust authority has opened an inquiry into Heineken's purchase of Birra Moretti, the Italian brewer, to find out whether the deal risks restricting competition in the Italian market.

Heineken Italia, the local subsidiary of the Dutch brewer, announced the acquisition of Birra Moretti from Interbrew of Belgium at the end of February. The deal made it the largest brewer in Italy with a market share of 38 per cent, slightly ahead of Peroni, in which Danone of France has a minority stake.

Andrew Hill, Milan

Ifi ahead sharply to L411bn

Istituto Finanziario Industriale (Ifi) saw its 1995 consolidated net profit rise by 92 per cent to L411bn ($264m). This compares with a net consolidated profit of L214bn in 1994. Ifi is the Agnelli holding company of the Fiat group and it also controls Ifil.

At the parent company level, Ifi results for the nine months to the end of 1995 showed a net profit of L52.5bn, up 67 per cent from the comparable period in 1994. The company proposed a dividend of L450 per privileged share from L390 in 1994, and L400 per ordinary share from L340 in 1994.

Reuter, Milan

Bilfinger & Berger declines

Bilfinger & Berger, the German construction group, saw net profit fall to DM105.5m ($68.4m) in 1995, from DM115.8m a year earlier. At parent company level, net profit fell from DM90m to DM84m, of which DM35.4m will be transferred to profit reserves, compared with DM41.1m in 1994, the company said.

The remaining DM48.6m will be used to pay an unchanged dividend of DM13.50. Domestic shareholders will also receive a tax credit of DM5.79m. Bilfinger said it would propose a 10-for-1 share split at its annual meeting, cutting the nominal value of the share from DM50 to DM5.

AFX News, Mannheim

Beiersdorf to seek new markets

Beiersdorf, the German toiletries, medical products and adhesive tape manufacturer, plans to expand market share in its leading brands and develop new markets. "We have to build from our current position of strength," said Mr Rolf Kunisch, chairman, at the group's annual news conference.

Beiersdorf was looking to the US and Asia as key growth areas for the group's core product areas – toiletries, medical products and its Tesa brand of adhesive tape. New products would help boost sales, Mr Kunisch said, adding that Beiersdorf planned to add lines to its successful haircare business and to re-enter the babycare sector. "Total sales will see single figure growth this year and profits will grow roughly in line with sales," Mr Kunisch said.

Reuter, Hamburg

Dispute turns Repsol into political football

Ruling Popular party and leading bank BBV both want to replace chairman Oscar Fanjul

Oscar Fanjul, chairman of the energy group Repsol, is at the centre of a growing dispute over who should run partially-privatised companies in Spain.

The row has brought into the open the apparently conflicting interests of the new centre-right government, of Repsol's core domestic shareholders, and of international institutions which have invested in the oil, gas and chemicals group. At issue is whether or not Mr Fanjul continues to run a corporation that over the past decade he has built into a leading domestic blue-chip stock.

"It is very useful that this should all come out, because it will define who calls the shots," says one senior merchant banker in Madrid, "but it is rotten for Oscar and probably bad for Repsol as well."

Mr Fanjul's reputation as one of Spain's top executives was recognised by his global peers this month when Unilever, the Anglo-Dutch food multinational, invited him to join its board.

But he has one glaring fault so far as the ruling Popular party (PP) is concerned and, it is understood, he has another no less grievous a fault in the eyes of Banco Bilbao Vizcaya (BBV), the domestic retail bank which owns 5 per cent of Repsol's stock.

Mr Fanjul's problem with the new government is that he was appointed to the job by the previous incumbents. Although not a member of the formerly ruling Socialist party, Mr Fanjul became a senior official in the industry ministry when the Socialists came to power in 1982, and was entrusted with the state-owned energy companies three years later.

But the PP now wants to pack public companies with its own supporters. Such client politicking was behind the decision last week to replace Mr Francisco Luzón, the chairman of Argentaria, the banking group which is 25 per cent state-owned.

BBV, meanwhile, is seeking to appoint its own candidate to run Repsol. Those close to the energy group claim Mr Fanjul has irked the bank by acting too independently. "BBV virtually demands a most favoured treatment from Repsol because it is such a big and traditional shareholder, but Oscar shops around when he contracts financial services for the group," says one source.

Mr Fanjul, who has consistently favoured the full privatisation of Repsol and as wide an equity base as possible, has never liked the notion of core shareholders, precisely because they could be tempted to act against the company's general interests and those of other shareholders.

Oscar Fanjul: favours full privatisation with a wide equity base

BBV's candidate is Mr Alfonso Cortina, the chairman of cement company Valderribas and a BBV board member.

This appointment is believed to be backed by La Caixa, the Barcelona-based savings bank which has recently built up a 5 per cent stake in Repsol to match the BBV shareholding, on the understanding that a La Caixa nominee will become chairman of Telefónica, the telecoms operator where both institutions are also the dominant single equity holders.

The plans to oust Mr Fanjul have caused considerable concern among foreign institutions. They account for an estimated 30 per cent of Repsol's equity base and they are at least partly responsible for a recent fall in the group's share price. S.G. Warburg, Merrill Lynch and James Capel have been among the investment banks and broking firms that have signalled their worries over changes in Repsol's senior management.

The concern is understandable because Mr Fanjul has cut an impressive figure at international road shows over the years as successive global offerings whittled down the state-owned equity in Repsol to the current 10 per cent, and because the energy group has proved a good investment.

But foreign institutions are particularly upset at the suggestion that political and big shareholder biases may force Mr Fanjul out.

"We were told again and again that whatever the state's stake in Repsol, Repsol was run as a private sector company operating according to market rules and for the benefit of all its shareholders," says one fund manager.

Tom Burns

COMPANIES AND FINANCE: ASIA-PACIFIC / INTERNATIONAL

Top Japanese electronics groups post strong rises

By William Dawkins in Tokyo

Japan's top four integrated electronics groups yesterday reported double-digit increases in profits on modest sales growth in the year to March, but warned that falling memory chip prices would be a problem in the current 12 months.

The gains in group recurring profit – before tax and extraordinary items – ranged from 54 per cent at Fujitsu, owner of ICL, the UK computer group, to 47.3 per cent at Toshiba, 41.1 per cent at Mitsubishi Electric and 22.9 per cent at Hitachi, the largest producer of electric machinery.

But Hitachi and Fujitsu warned that their group recurring profits would fall in the year to next March because of the decline in world prices for dynamic random access memories, used in personal computers.

Recurring profits at Hitachi are forecast to decline by 11 per cent and Fujitsu is predicting a 10.6 per cent profits fall. Fujitsu said semiconductor sales generally were expected to rise by 7.6 per cent this year, within which international sales would fall by about 5 per cent.

The main features of the past year for the sector in general were continued losses in consumer electronics, due to fierce price competition and low margins on fast-growing personal computer sales, but an upturn in profits on businesses related to capital spending, such as telecommunications, industrial machinery and automation equipment, said Mr Barry Dargan, analyst at SBC Warburg in Tokyo.

Power surge (Yen m)

	Sales	Recurring profit*	After-tax profit	EPS (Y)
Hitachi				
Year to Mar 96	8,123,810	348,627	141,770	40.08
Previous year	7,592,200	283,643	113,912	33.02
Year to Mar 97†	8,240,000	310,000	135,000	40.56
Toshiba				
Year to Mar 96	5,120,086	177,749	90,388	26.85
Previous year	4,790,700	120,674	44,893	13.54
Year to Mar 97†	5,300,000	190,000	100,000	31.07
Fujitsu				
Year to Mar 96	3,761,966	156,656	63,113	34.47
Previous year	3,257,700	101,692	45,020	24.78
Year to Mar 97†	4,360,000	140,000	85,000	35.30
Mitsubishi Electric				
Year to Mar 96	3,511,359	128,490	59,205	25.59
Previous year	3,250,800	91,058	42,095	18.45
Year to Mar 97†	3,560,000	130,000	60,000	27.95

* Before extraordinary items and tax. † Forecast Source: Companies

At Hitachi, memory chip sales increased strongly last year, before US demand started to weaken. Sales of home appliances also increased, the group said. Like many other Japanese industrial companies, Hitachi said it was reaping the fruits of years of cost-cutting and efficiency improvements.

Fujitsu, Japan's second largest producer of computers, said it had increased its domestic sales of PCs to 1.45m units from 450,000 in the previous year. It experienced strong growth in other Asian markets and the US, but sluggish economic growth in Europe and Japan.

Fujitsu said that in the UK, ICL would return to profitability "very quickly" as a result of its Japanese parent's decision, announced in March, to put the UK company's PC business into its own global PC business group.

Toshiba said it benefited from a recovery in Japanese public sector investment, but saw no strong rise in consumer spending last year. But like Fujitsu, it racorded strong growth from its semicouductors, PCs and peripheral devices, which earned nearly doubled profits for the group's information systems and electronic devices division.

Sales of heavy electrical machinery rose by 8 per cent, because of deliveries to Japanese nuclear power plants, while air conditioners saw strong sales due to an unusually hot Japanese summer.

Mitsubishi Electric also saw its fastest growth last year in products related to the computer industry. Sales in its information and telecommunications division rose 17 per cent, more than twice as fast as the group total. Mitsubishi also reported higher demand for factory automation machinery, as a result of which sales in its industrial products division rose 7 per cent.

Telco profits advance 66% as vehicle sales hit record

By Shiraz Sidhva in New Delhi

Tata Engineering and Locomotive Company (Telco), the Bombay-based Tata group's vehicles unit, reported a 66.2 per cent in net profits to Rs5.3bn ($150m) for the year to March.

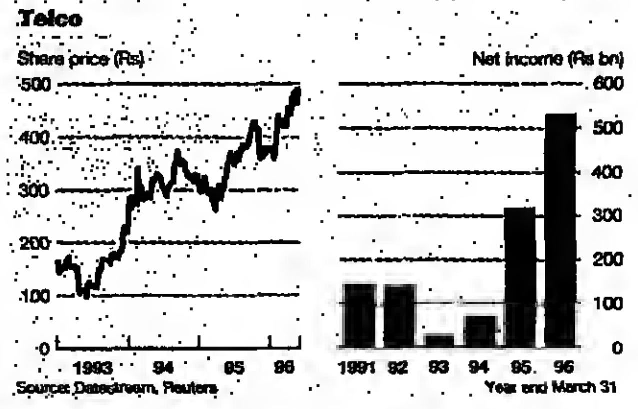
Revenues grew by 38.7 per cent, from Rs56.69bn in the previous year to Rs79.1bn.

Telco, the sixth-largest truckmaker in the world and India's third-largest company in terms of sales, said a "substantial increase in prodnction and sales volumes, a lower level of inventories and a better product mix contributed to the big growth in net profit".

The company posted record sales of 181,200 vehicles, a 32 per cent increase over last year's figure. Telco has a collaboration agreement with Cummins Engine of the US, and commands 72.7 per cent of India's heavy commercial vehicles market and 62.4 per cent of the light commercial vehicles segment.

Telco's revenue from exports increased from Rs5.83bn last year to Rs6.39bn, up 9.6 per cent. Earnings per share fell 5.96 per cent to Rs21.9 during the current year, despite an increase in net profit, because paid-up equity increased from 136.9m shares in the previous year to 241.8m shares this year.

Telco



Source: Datastream, Reuters

The Telco board has recommended seeking shareholder approval at a forthcoming meeting to raise up to $200m "through equity or equity-related instruments in the international financial market at an appropriate time" to part-finance its $40bn expansion plan.

Telco, which has a joint venture with *Daimler-Benz* of Germany (Daimler owns around 12.3 per cent of the company's equity, with the Tata group holding 19.5 per cent) to manufacture Mercedes cars in India, plans to introduce a small car to the Indian market by 1998.

In July 1994, the company issued Global Depositary Receipts worth $115m with warrants. Analysts said a further dilution of the company's equity was expected to make the stock underperform. But they recommended Telco stock because of its strong fundamentals and because demand for vehicles in the indian market was expected to remain high in the current year.

"Telco's operating margin on sales has increased to 13.5 per cent from 13.04 per cent, indicating fundamentally strong growth," one Bombay-based hroker said.

Indian sugar producer reaps benefit of production shake-up

By Kunal Bose in Calcutta

Balrampur Chini Mills, one of India's largest sugar prodncers, said profits in the last business year rose on the back of an increase in the crushing of cane and enhanced efficiency at its two factories.

Gross profits for the year to March advanced 13.75 per cent to Rs283m ($8.06m), while net profits, after providing Rs58m for depreciation and taking account of a loss of Rs24.8m on past investments, rosa marginally to Rs200m from Rs195m.

Mr Vivek Saraogi, managing director, said "profits from the sugar husiness had actually risen 59 per cent to Rs235m from Rs148m in the previous year.

But the company had to absorb a loss of Rs10m in its distillery operation. The phasing out of investment in shares in other companies entailed a loss of Rs24.8m."

The majority of sugar companies in the country moved into the red last year as a result of bumper production of the commodity for two consecutive years, which saw a fall in sugar prices and a sharp rise in inventory.

The federal government tried to hail out the industry hy allowing the export of 1m tonnes of sugar and huilding a buffer of 500,000 tonnes.

"We are in the husiness of producing sugar and we must not get distracted hy the volatility of the share market," Mr Saraogi said.

Balrampur bopes to do much better in the current year as the cane crushing capacity of one of its two factories in eastern Uttar Pradesh is raised to 10,000 tonnes a day from 5,000 tonnes.

The distillery is expected to yield a profit of Rs25m against a loss of Rs10m last year.

Earnings per share rose to Rs26.66 from Rs25.93. The company will be making a honus issue in the ratio of three new shares for every two held, by capitalising Rs112.65m from reserves.

Foreign institutions hold 7.91 per cent of the company's equity.

NEWS DIGEST

Koor disappoints with 7.5% increase

Koor Industries, Israel's largest and most profitable holding group, yesterday reported that first-quarter net income rose 7.5 per cent, from $58m in the same period last year to $62m. Despite the increase, net income in the quarter to March 31 was disappointing compared with the 20.5 per cent surge in annual net income in 1995, to $156m from $130m in 1994.

Results were also poor given that the first two quarters are usually the strongest for the company. Mr Benjamin Gaon, president and chief executive officer, said the performance reflected the absence of capital gains made in the first quarter of 1995 and "some unexpected challenges in the Middle East during the quarter". Mr Gaon was apparently referring to the recent series of bombings that led Israel to seal its borders with the West Bank and Gaza Strip to trade and labour movements.

Operating income rose 17.8 per cent to $108m for the quarter, compared with $92m in the corresponding period last year. But sales were lower than expected, and only rose slightly by 4 per cent from $893m last year to $930m.

Despite external factors, Mr Gaon said Koor's first-quarter increase in sales "confirms the underlying economic resilience of our region, the strength of our businesses, and our commitment to controlling costs throughout the company".

Koor's results reflected in part an increased first-quarter performance of Tadiran, an electronics company in which it holds a 62 per cent stake. Tadiran earlier said sales increased 9.2 per cent over the same period in 1995, from $255m to $269m. Net income for the quarter was $18.5m, compared with a $6m loss in the same period in 1995.

In March, Tadiran sold 20 per cent of Tadiran Telecommunications, a subsidiary, in an $80m initial public offering on Wall Street as part of a strategy of upgrading the value of its companies by spinning off independent companies and taking them public.

Koor, which accounts for more than 7 per cent of Israel's industrial output and exports, operates in a variety of fields but focuses on telecommunications, electronics and agrochemicals. *Avi Machlis, Jerusalem*

Sakura to fund new bank

Sakura Bank, one of Japan's 10 leading city, or commercial, banks, confirmed yesterday that it is to put up all the capital for the successor institution to Taiheiyo Bank, a regional bank based in Tokyo that collapsed in March.

Mr Shunsaku Hashimoto, Sakura president, said three other banks – Sanwa, Fuji and Tokai, all leading shareholders in Taiheiyo – would contribute financial assistance to the new company in the form of subordinated loans. All four banks would have seats on the new board. They had also asked the finance ministry and the Bank of Japan to provide board members, Mr Hashimoto said.

"Negotiations among the four banks have been steadily progressing," Mr Hashimoto said, "but it will take some time to formalise the liquidation scheme."

Taiheiyo was only the second listed bank to fail in Japan in the past 30 years. It collapsed under a pile of non-performing loans advanced during the years of soaring land prices in the late 1980s. At least 20 per cent of its total outstanding loans of more than Y700bn ($6.5bn) are understood to be non-performing. *Gerard Baker, Tokyo*

Thai phone operator in deal

Total Access Communications (Tac), the Thai mobile phone operator, plans to share its right to operate a mobile phone system on the 1,800 MHz frequency with International Engineering (IEC), in what is seen by some industry analysts as a back-door move by IEC to join the lucrative cellular network market. Tac is a subsidiary of listed United Communications Industry (Ucom).

Initial registered capital for the joint venture will be Bt1bn ($39m). A group of financial institutions hold a stake in the project.

New entrants to Thailand's mobile phone industry usually have to undergo an extensive application and approval process. IEC already acts marketer for Tac's digital mobile phone services. *AP-DJ, Bangkok*

Vietnam venture for Honda

Japan's Honda Motor has begun work on a $104m joint-venture factory in northern Vietnam to produce motorcycles for the local market, a company executive said. Production, which is expected to start hy the end of 1997, will begin by assembling 200,000 100cc motorcycles from kits. Honda and its Thai subsidiary, Asian Honda Motor, hold a 70 per cent stake, while local partner Vietnam Engine and Agricultural Machinery General Co holds 30 per cent. *AFX-Asia, Hanoi*

Samsung wins Ecuador contract

Samsung Electronics, flagship of South Korea's Samsung Group, said it had won a $15m contract from Ecuador's Empresa Estatal de Telecommunicaciones to supply telephone switching systems. Samsung will install 31 systems that can accommodate up to 21,000 lines in several rural areas of Ecuador by October 1997 and train local engineers, Samsung said. *Reuter, Seoul*

Mercedes-Benz plans Asia boost

Mercedes-Benz aims to boost substantially sales of both commercial and passenger vehicles in Asia, Mr Albrecht Branding, managing director, commercial vehicles, for Mercedes-Benz Asia said yesterday. "Turnover from Asia [for both commercial and passenger vehicles] in 1995 was 9.2 per cent of our worldwide revenue of DM72bn ($46.71bn). And this is by far not enough," Mr Branding said.

"To be a major player we must sell 200,000 units [commercial vehicles] in Asia a year," he said. The company currently sells fewer than 10,000 commercial vehicles in the region. Mercedes-Benz, a unit of Daimler-Benz, aims to increase its Asian sales of commercial vehicles to 10 per cent from 3 per cent of the units sold worldwide.

Mr Branding said the company was studying various new projects for the region. "We are studying R&D activity in Asia, preferably in Singapore." He said there were plans to locate more manufacturing operations in Asia, and the company needed to set up production sites in countries such as China. He declined to elaborate. *Reuter, Singapore*

Cinema group seeks funds

Village Roadshow, one of Australia's main cinema operators, is raising A$216m (US$170m) through a share issue to fund overseas expansion plans. The issue, subject to shareholder approval, will take the form of 60m new preference shares at A$3.60 each, to be placed with clients of McIntosh Corporate, the underwriter. *Bethan Hutton, Sydney*

Restructuring hits Mitsubishi Materials' earnings

By Gerard Baker in Tokyo

Mitsubishi Materials, Japan's leading manufacturer of metals and ceramics, yesterday announced pre-tax profits in the year to March almost douhled on the back of strong sales growth.

However, net profit, dented by costs of restructuring at affiliated companies, was only 17 per cent higher at Y2.2bn ($20.4m).

The improvement in recurring profit – before extraordinary items and tax – was founded on the biggest growth in sales for five years, and came despite soft prices in the company's main markets, it said. Recurring profit rose 92 per cent to Y8.3bn on sales 4.6 per cent higher at Y723.5bn.

The company said lower prices in all but its non-ferrous metals division had depressed total turnover. But a number of factors had helped offset the damage. A general upturn in overseas copper markets, a significant increase in demand for copper-based products from the semiconductor industry and a strong recovery in sales of fabricated products such as machine tools, had all contributed to the sales increase.

Weak prices had restrained operating income, however, which grew only 3 per cent to Y18.8bn. But lower interest rates and the effect of the restructuring measures had produced the much stronger growth in recurring profit.

The company is in the process of a large-scale reorganisation, including the liquidation of several of its subsidiaries. Next month it will complete its withdrawal from the zinc smelting business with the scrapping of smelting operations at its Akita plant in northern Japan.

For the current financial year, the company said it expected continuing low prices and a sluggish economic environment.

However, further cost-cutting and strengthening demand from the semiconductor business were expected to contribute to stronger overall sales and profits.

Recurring profit was forecast to rise to Y9bn in 1996-97 on sales of Y750bn.

Air-cooled systems suffocate Klöckner

The group's reluctance to switch to water-cooled engines has cost it dearly, writes **John Griffiths**

Not much has gone right in the past decade for Klöckner-Humboldt-Deutz, the German engineering group which yesterday said its future was in doubt as a result of large concealed losses at its Wedag plant engineering subsidiary.

KHD, which is known mainly as a diesel engine maker, has shared with the rest of German industry the problem of high costs as the D-Mark and labour overheads have soared.

But this conservatively-managed company is now paying the price for a stubborn adherence to the production of diesel engines cooled by air, in an era when much of the diesel engine industry and its customers have been moving to water-cooled engines under the pressure of exhaust emissions and noise reduction legislation.

When KHD finally capitulated, little more than two years ago, it was late to market with its own water-cooled units. And in the period of transition, rivals have grabbed some of its traditional cakes. Most painfully, VarityPerkins, the US multinational's diesels subsidiary, has captured most of KHD's long-standing business with Linde, the world's biggest maker of fork-lift trucks.

Some other traditional props of the business have been falling. KHD was once a sizeable truck engine producer, mainly for its own associate, Magirus. But when Magirus was sold to Iveco, Fiat's commercial vehicles arm, in the mid-1980s, it took relatively little time for Iveco engines to supplant those from KHD.

Efforts to win substitute business with MAN of Germany and Renault of France have also been fruitless. Instead, MAN and Renault are planning their own collaboration on diesel engine development. Customers for KHD's water-cooled family of heavy vehicle engines, produced at Ulm in Bavaria, are therefore confined to low-volume applications such as special purpose vehicles and buses.

Last year, as the financial pressures on KHD mounted, its agricultural tractors business was sold to rival Same of Italy as part of a financial restructuring. Engine sales to another German tractor maker, Fendt, and the tractors subsidiary of Renault have also dwindled as a result of Renault's partnership with John Deere of the US.

However, KHD is still strong in supplying diesels to the air compressor and construction equipment sectors, with principal customers including Atlas Copco in air compression and Zettlemeyer and Schaff in the construction sector.

They represent business that rivals such as VarityPerkins, Deere, Isuzu of Japan and others would love to have – but not necessarily at the price of seeking to buy KHD itself, as the lack of any overt takeover interest over a long period suggests.

"The issue is – what would you get?", an executive of a rival company said yesterday. "KHD's activities are concentrated in Germany and no-one's really interested in taking on Germany's very high costs."

Diesel engine production

Off-highway applications over 30 horsepower

Manufacturer	1993	1994	1995
Perkins	154,000	169,400	191,000
Deere	110,200	123,300	130,400
Cummins	107,000	115,500	127,300
KHD	121,600	123,600	125,800
Kubota	97,100	99,000	102,200
Yanmar	94,900	97,300	100,800
Isuzu	89,700	89,700	94,800
New Holland	64,800	79,500	86,000
CAT	62,500	67,100	69,300
Belarus	68,700	62,300	63,600

Source: Power Systems Research

Unlike the on-highway vehicle industry, he pointed out, where dedicated drive systems are engineered from the outset for specific cars or trucks, the sectors in which independent diesel engine makers concentrate are much more flexible and products more easily re-engineered for a variety of engines.

With plenty of spare capacity in the global diesel engines business, filling any market gaps left by KHD, rivals suggest, would not be too difficult. Its well-developed distribution system, however, particularly in Germany, could prove attractive.

KHD has also, however, been a victim of bad luck. As Mr Ted Hadingham, a director of Brussels-based industry consultants Power Systems Research, points out, KHD was investing heavily in its new water-cooled engine range and a new, high-tech factory in which to produce them in the early 1990s, when recession was sweeping western Europe.

Ironically, therefore, along with the hidden losses disclosed yesterday and now threatening its very survival, KHD has a new engine plant – at Porz, near Cologne – as well as broad range of new or heavily-updated engines, and a more than adequate technology base to take it into a future it may not live to see.

Canadian banks top analysts' forecasts

By Bernard Simon in Toronto

Bank of Montreal and Bank of Nova Scotia opened Canadian banks' quarterly reporting season with strong earnings advances that exceeded analysts' expectations.

The banks, the third and fourth largest respectively of the six big domestic institutions, both benefited from improved retail and investment banking volumes, as well as lower loan loss provisions.

Bank of Montreal raised net earnings to C$281m (US$205m), or 98 cents a share, in the three months to April 30, which is the second quarter of the fiscal year, from C$225m, or 76 cents, a year earlier.

Return on equity moved up from 14.5 per cent to 16.8 per cent, with return on assets up from 0.64 per cent to 0.76 per cent.

The bank said residential mortgage applications soared 79 per cent. But average lending margins dropped as lending rates fell faster than deposit rates.

Loan write-offs fell from C$87m to C$69m. The bank's portfolio of non-performing loans stood at C$714m on April 30, down from C$1.2bn a year earlier, but well above C$540m at the end of the first quarter.

Bank of Nova Scotia lifted earnings to C$262m, or C$1.01 a share, from C$211m, or 82 cents.

Return on equity climbed from 14.2 per cent to 16.1 per cent, and return on assets from 0.63 per cent to 0.71 per cent.

The bank ascribed a near-trebling of investment banking income to improvements in retail brokerage commissions, underwriting fees, foreign exchange and derivatives.

Loan losses charged to income dipped from C$102m to C$95m. The non-performing loan portfolio stood at C$937m on April 30, down from C$1.05bn three months earlier, due partly to sales of troubled real estate.

Bank of Nova Scotia's shares gained 35 cents to C$32.40 at lunchtime yesterday on the Toronto stock exchange.

Some analysts had expected second-quarter earnings to be slightly lower than the first quarter, because of narrower interest margins and a weaker contribution from capital markets.

However, BNS posted a 5.2 per cent improvement over the first quarter.

Bank of Montreal's earnings slipped 5.1 per cent compared with the previous three months.

Its share price eased 15 cents yesterday morning to C$33.20.

NEWS DIGEST

MCI and Microsoft in conferencing link

MCI Communications and Microsoft are working on a project to offer audio and document conferencing services over the Internet. Through Microsoft's new NetMeeting communications software, more than two people can share most existing Windows-based applications to collaborate on a document in real time, the two groups said yesterday.

The project is part of a broad alliance to jointly market each other's products and services, announced in January.

AFX News, Chicago

Hoechst unit on the move

Hoechst Celanese, a unit of Hoechst of Germany, is to relocate its corporate headquarters to Warren Township, New Jersey, from Bridgewater, New Jersey in April 1997.

Hoechst Celanese said yesterday that 500 employees from its corporate departments and its Hoechst-Roussel Agri-Vet unit would move to a leased facility under construction.

The move will enable Hoechst Celanese's pharmaceuticals unit, Hoechst Marion Roussel, to expand.

AP-DJ, Somerville, New Jersey

Fund buys 10% of Hudson's Bay

The US Templeton Funds have bought a 10.24 per cent interest in Hudson's Bay, Canada's biggest department store group, after snapping up the shares at a bargain price. Hudson's Bay shares have dropped from C$40 to C$19 because of the depressed domestic retail climate, competition from Wal-Mart of the US and price wars.

The Thomson family holds 23 per cent of Hudson's Bay, which reported a first-quarter a loss of C$53.4m (US$38.6m), including a C$64m restructuring charge. However, the group forecasts "significant profit improvement" for the full year.

Robert Gibbens, Montreal

Canada insurers' income studied

Canadian life and health insurers derive about half their total premium income from outside Canada, says a Canadian Life and Health Insurance Association study. The US is the biggest outside market, but Asia-Pacific is the leading area for new investment.

About 5m foreign policyholders own about C$730bn of Canadian insurance in force.

Robert Gibbens

Power Corp in share buy-back

Power Corp of Canada, the main holding company of Mr Paul Desmarais, the Montreal financier, is buying 17.14m of its own subordinate voting shares from Belgian subsidiaries of Paribas, the French banking group, for C$326m, or C$19 a share. Power Corp shares were trading at C$22.20 around midday yesterday.

The latest deal reduces Paribas's indirect interest in Power to less than 3 per cent. Power will later cancel the 17.14m shares, reducing the total outstanding to 97.5m.

Power Corp has recently sold its 31.5 per cent interest in Southam, the Canadian newspaper chain, for C$294m.

Robert Gibbens

Magna plans C$400m issue

Magna, the fast-growing Canadian-based car parts group, plans a C$400m equity issue to double cash resources to about C$800m. Magna plans acquisitions in the car interiors sector in North America and Europe.

It posted third-quarter net profit of C$87.6m, or C$1.33 a share, up from C$79.8m, or C$1.30, a year earlier. These were struck on sales of C$1.6bn, against C$1.3bn.

Robert Gibbens

Videotron wins CFCF bid battle

Videotron, Canada's third-biggest cable TV and broadcasting group, has won a bid battle for CFCF, a Montreal cable broadcaster, in a deal worth C$367m cash. It follows a six-month legal battle. Videotron now dominates the Montreal and Quebec cable market.

The loser was Cogeco, a cable and publishing group operating in Quebec and other parts of Canada. Cogeco could itself become the object of a bid as the Canadian communications sector restructures.

Videotron plans to finance the takeover by selling its 56 per cent stake in Videotron Holdings in the UK, a cable and telephone subsidiary, for several hundred million dollars.

Robert Gibbens

Sol Meliá presses ahead with IPO

By Tom Burns in Madrid

US attempts to ward off investment in Cuba through the Helms-Burton law has not deterred a forthcoming $275m international IPO by Spain's Sol Meliá hotel group, which has a thriving business on the island.

If Sol Meliá should run foul of the new legislation, it is also prepared to relinquish the sole property it operates in the US, a hotel in Miami.

Sol Meliá said yesterday it was determined to press ahead with the flotation, which is scheduled for the third week of June, although it was prepared to cancel presentations to US funds planned to start next week.

Part of the Helms-Burton law seeks to refuse US visas to senior executives of foreign companies considered to have trafficked with property expropriated by the Cuban government from US nationals. "Our lawyers tell us we are in the clear, but if the worst comes to the worst we will have to forget about bookbuilding in the US," said Mr Jaime Puig de la Bellacasa, Sol Meliá's deputy financial director.

The US State Department will shortly begin notifying individuals it considers to be vulnerable under the legislation, although they will be given time to appeal against the department's decision. The law cama into force on March 12, and the definition of "trafficking" only applies after that date.

The law's section allowing action through the US courts for restitution by a property's former owner against a foreign company only comes into force after Novemher 12. Bnt Sol Melia' would avoid being sued in the US if it disposed of its Miami hotel. Other companies that operate in Cuba and may be affected by the Helms-Burton Act include Unilever, Clnh Med and Benetton.

Sol Meliá, which is ranked among the top 20 international hotel groups, was a pioneering foreign investor in Cuba 10 years ago, and is now the leading hotel operator on the island. The six hotels managed by Sol Meliá in Cuba, which include the prestigious business hotel Meliá Cohiba that opaned in Havana last year, account for 4,500 beds and nearly 8 per cent of the group's turnover.

The group is confident that strong interest in the IPO will offset any possible conflicts in the US. "Our banks say there is no prohlem hecause there will he a lot of demand in Europe and there will also be US funds huying via the UK, Holland and elsewhere," Mr Puig de la Bellacasa said.

Mr Abel Matutes, Spain's foreign minister, said last week that the Helms-Burton law was "unacceptahle in every respect".

New product on Meff RF

By Richard Lapper

The Barcelona-hased futures and options exchange, Meff Renta Fija (RF), is to launch a new type of bond derivative at the end of next month.

The new price differential futures contract, or Diff, is designed to allow dealers to trade more efficiently the price differences between the Spanish 10-year bond future and its French, Italian and German equivalents.

The move is part of broader efforts to raise the Meff's profile ahead of the introdnction of European monetary union. Emu is expected to reduce the number of money and hond market contracts traded on the continent, increasing competition between European derivatives exchanges.

Mr Jose-Luis Oller, chief executive of Meff RF, said the new product would allow dealers to conduct spread trading through one single transaction, rather than two separate deals, reducing expenditure on both commission and collateral.

Spread trades anticipate movements in the value of different European bonds. For example, a trader expecting the price of Spanish honds to increase compared with German paper would take a long position on Spanish futures and a short position on German bond futures.

Mr Oller estimated that between 15–20 per cent of Meff's volume – daily volume has averaged 92,380 contracts so far this year – stem from spread trades. He conceded that the new product might have a limited life, hut said the developmant could give Meff expertise in a new technical area that could be applied to other international markets.

"This kind of contract is a move towards internationalisation of the Meff, which is badly needed," he said. Meff RF currently trades a range of Spanish money and hond market futures and options contracts, while the Madrid-based Meff Renta Variahle (RV) lists a number of equity products.

Separately, Mr Oller said Meff RF intended to press ahead with plans to launch a clearing house for over-the-counter swaps trades. New rules permitting the clearing house to go ahead were part of broader legislation implementing the European Union's investment services directive into Spanish law, and were expected to come into effect later this year, Mr Oller said.

Inco defers Diamond Fields deal

By Bernard Simon

Inco, tha Toronto-based nickel producer, has delayed completion of its C$4.3bn (US$3.1bn) takeover of Diamond Fields Resources, pending clarification of a lawsuit launched by a group of Texas investors against the co-chairman of the Vancouver-hased exploration company.

Diamond Fields' main asset is a rich nickel, copper and cobalt deposit at Voisey'a Bay, Labrador, which is expected to provide up to 13 per cent of world nickel supplies within the next five years.

The deal was dne to be finalised today. Inco and Diamond Fields said they hoped to announce a new closing date within the next week.

The lawsuit has been filed hy Exdiam, a US diamond company formerly headed by Mr Jean-Raymond Boulle, who is Diamond Fields' co-chairman and a significant shareholder. Exdiam alleges that Mr Boulle diverted business opportunities and confidential information from Exdiam to Diamond Fields, enabling the Vancouver company to finance the discovery and development of Voisey's Bay. Exdiam has claimed all Diamond Fields' assets. Diamond Fields has dismissed the suit as frivolous and timed to extract a sizeable settlement.

However, Inco said: "There are a number of conditions attached to the deal closing, and they haven't all heen sorted out yet."

Inco and Diamond Fields shares rose slightly on the Toronto Stock Exchange in early trading yesterday.

Telmex learns to live with competition

The former telecoms monopoly's poor record on service is perhaps its biggest problem

Mexico is about to let competition loose in the most important part of its telecommunications industry – and change forever the life of its biggest company.

A trail of broken earth outside Mexico City for the installation of new fibre optic networks, and an advertising war between prospective competitors symbolise big changes for Teléfonos de México (Telmex), the company that up to now has enjoyed a monopoly on long-distance telephone communications.

Competition in the long-distance sector is due to hegin in August – and Mr Jaime Chico Pardo, Telmex's chief executive, is obliged to coonect competitors to his network from the beginning of next year.

As a result, Mr Chico is trying to reinvent his company as a high-tech multimedia concern. But he faces problems, perhaps more because of the company's traditions than from anything else.

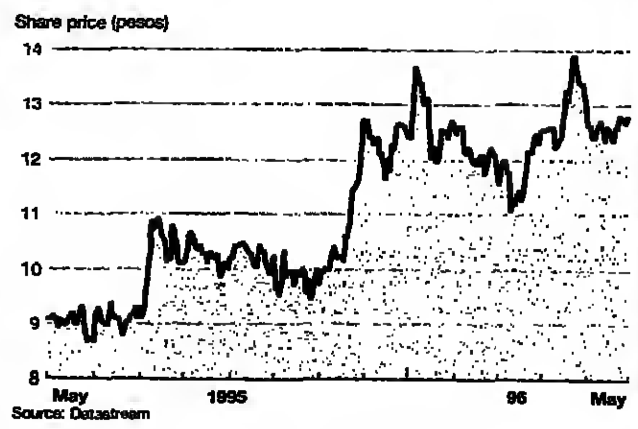
The company needs "a great cultural change in the way we do things", he says. "We can't just accept being a telecommunications company. We have to be more."

The pressure is considerahle. Telmex's profitability will be affected by competition, and has taken a beating from the Mexican devaluation. Sales in recession-battered 1995 stood at 42hn pesos ($6hn). Operating margins, once above 45 per cent, have tumbled by more than 10 percentage points.

Mr Chico argues the figures may mislead since the privatised company initially had little valuable equipment to rack up depreciation costs. After $11bn of investment in five years, such costs are now formidable.

Telmex

Share price (pesos)



Source: Datastream

Nevertheless, the company's market share will certainly fall, perhaps by 10 per cent in the first year after competition, and even Mr Chico concedes that long-distance rates, already low, may he pushed lower.

Because of the pressures, the company is looking to develop new services to keep customers and expand traffic. One would be a low-cost pager network, which would use Telmex's existing infrastructure to provide a communications link for people who cannot afford $300 for a phone line.

Another project is linked to Telmex's proposal to acquire a 100 per cent stake in Cablevisión, Mexico City's only cable operator, in which the company has a minority stake.

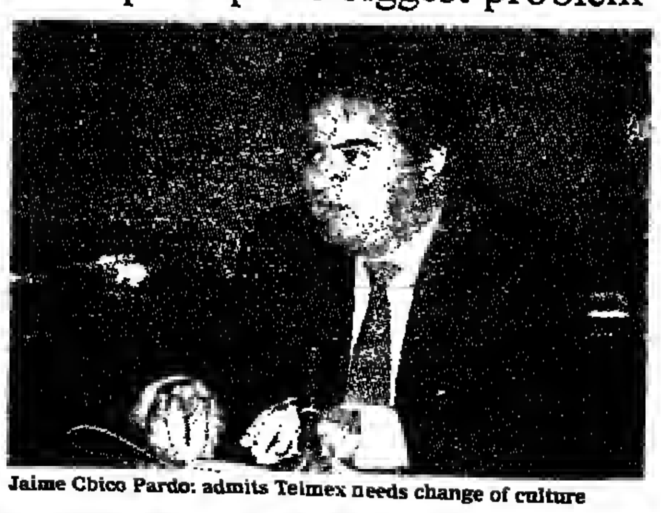
"Our interest in Cablevisión is to take advantage of new technologies," saya Mr Chico. He says that a more integrated service using Cablevisión's infrastructure should help "Internet access become common, and video conferences to he used for educational and health reasons".

Others see the group's concern to keep out competitors as also playing a part. "A Cablevisión acquisition would be both a defensive and an offensive play for Telmex," says Ms Sari Meyer, an analyst at Salomon Brothers in New York.

Telmex's proposed new services will require much less investment than the construction of infrastructure over the last five years. The company hopes that they will be complemented by its international activities and those of its holding company, the recently spun-off Carso Global Telecom.

Carso Global Telecom this month supported a management buy-out of Prodigy Service, the US online service provider, through a 25 per cent stake in International Wireless, the communications company, and is launching a wireless joint venture in Brazil.

However, among the rush of promises and developments, some analysts are worried that Mr Chico is not taking the whole company with him in his ambitious plans to modernise. "The company's top level is very able, but it is not clear how prepared the middle management is for competition," says Mr Ricardo Peón, head of research at ING-Barings in Mexico City.



Jaime Chico Pardo: admits Telmex needs change of culture

Telmex needs a substantial change. Its public image is still awful, a legacy of years of bad service. Mr Marco Antonio Guzmán, head of the centre administering Telmex's long-distance network, remembers when the company would greet even its biggest clients with impenetrable explanations rather than admit it had done something wrong.

But a company that only now tells clients such as Volkswagen and American Express precisely what equipment it uses to service them, so that their own technicians can put faults right, still has a long way to go in learning how to act in a competitive world.

Telmex may also need to curb its dependence on the capital. Mexico City has long been the political centre of the country, but the next two largest cities, Monterrey and Guadalajara, are likely to grow significantly. Despite a regionalisation programme, facilities and priorities are still concentrated in Mexico City. A new administrative centre in the capital cost hundreds of millions of dollars; whereas Mr Guzmán's centre, which covers the whole country, is a humble affair.

Such problems emphasise the need for the company to continue its transformation from a protected monopoly to a competitive group.

But when Telmex's competitors first began to dig their fibre optic networks, the company's first response was to send squadrons of operatives to guard its own lines from being cut by careless rivals.

Telmex's top management has gone far beyond such defensive thinking, aggressively preparing for a competitive environment. But as workers keep guard over the company's infrastructure, middle managers need to adjust to a new way of seeing Telmex.

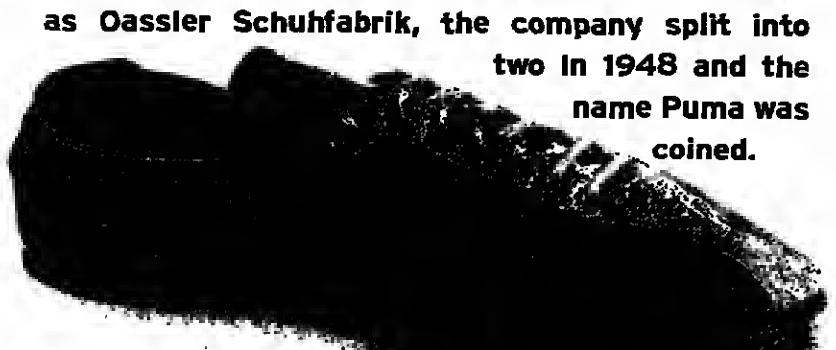
Daniel Dombey

WE'RE PERFORMING BRILLIANTLY ON GRASS AND TARTAN.

AND JUST AS WELL ON PAPER.

The company that was to become Puma was born back in 1924.

It was launched by Rudolf Dassler and his brother into a sports market in its infancy. Known then as Dassler Schuhfabrik, the company split into two in 1948 and the name Puma was coined.



For years, there was little competition and the brand thrived, enjoying decades of market leadership. Business peaked in 1986, coinciding with a stock-market flotation.

Although new products and new technologies were consistently introduced, a rude awakening was in store in the shape of highly aggressive competition from Reebok and primarily Nike. Puma was quickly outpaced by its younger and fitter competitors.

Seven years in the wilderness lead to unsustainable losses. It became obvious that a programme of refocusing and restructuring was not only necessary but vital to the future of the company.

Thus, phase one of the restructuring programme was introduced in 1993. It involved drastic cost reduction. The streamlining of the product range. The creation of profit centres. And the outsourcing of production. As well as a painful, but absolutely crucial, headcount reduction.

Phase two began in 1994. Basically, this was an internal re-engineering process. The entire company culture was modernised. Business processes were redesigned. Product costing was closely examined. And a streamlining of suppliers was undertaken.

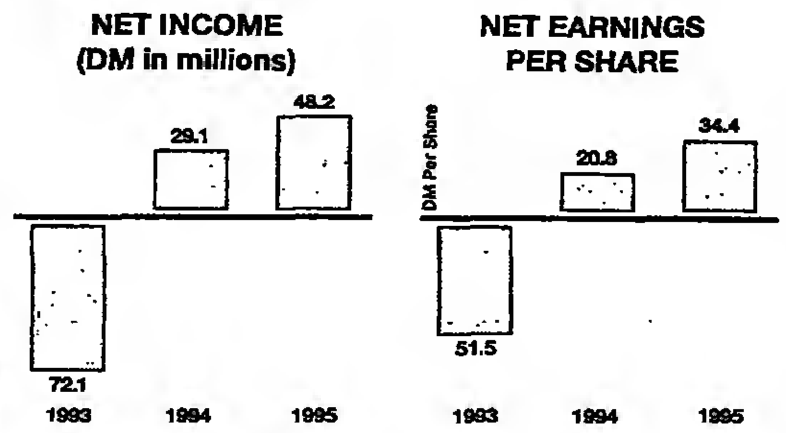
Phase three followed in 1995. At its core was a renewed focus on product. A focus that accurately reflects the company's mission statement:

> 'to market excellent sports performance products that meet the needs and aspirations of today's consumers'

Allied to this was more stringent business management. A greater market and customer focus. A new product range. A global marketing strategy. Increased concentration on customer service. And tighter licensee control. These measures have lead to a welcome return to both growth and profit.

The impact of the restructuring has been widespread. Loss-making profit centres were reorganised or, in extreme cases, closed during phase one. In 1995, every one of the nine remaining profit centres did indeed make a profit.

Sales in the Puma Group and Worldwide (including licensees) have increased to DM413.6 million and DM1,128.9 million respectively. Margins, too, have improved markedly. Gross profits have risen from 29.9% of net sales to 37.4%. Income from operations has jumped from -11% to +14.5% of group net sales. While net income has leapt from -17.6% in 1993 to +11.7% in 1995. Not surprisingly, the impact on earnings per share has been enormous with an increase of 65.4% over the period '94-'95 alone.

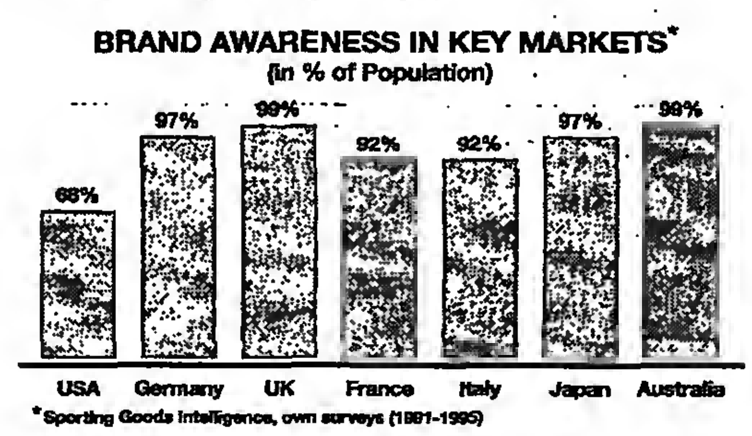


And so today the company finds itself, like its top endorsed stars, in good shape.

But what of the future? Well, the opportunity facing the company cannot be overstated.

The global sports market is simply vast. The sports footwear market alone now stands at approximately $15bn per annum. Astonishingly, Puma's share of the worldwide market stands at just 4%.

The opportunity for growth for a sports company with the tradition and rich international heritage of Puma is there for all to see.



For, while market share in the US is minimal, brand awareness is surprisingly high. No less than 68% of the population profess recognition of the Puma brand. An impressive figure but noticeably less than the 90% brand recognition that Puma enjoys in many international markets. The widely contrasting figures attributed to market share and brand can only be seen as an opportunity for growth and must not be missed.

So just how can the company exploit this opportunity? What, in essence, are the tools for success?

Historically, Puma has been at the forefront of new technologies. Witness the introduction of the sole and shaft vulcanisation technology in the late '50s. The development of Velcro fastening in the '60s and the 'Trinomic' sports shoe mid-sole technology and Puma Disc system in the '80s and '90s. Only by constantly pushing for technological leadership can Puma continually fulfil its mission statement. Hence the arrival of the latest technology. Puma Cell.

A lighter, more durable, performance based technology. Other leading manufacturers are also working on new technologies. But, according to the Wall Street Journal, no less, Puma have once again got there first.

> By JOSEPH PEREIRA
> Staff Reporter of THE WALL STREET JOURNAL
> Puma AG has begun shipping a foam-less athletic shoe, beating to market a host of bigger rivals with a technology on which the footwear industry plans its next generation of sneakers.

Of course, on the pitch, our endorsed stars continue to shine. Diego Maradona and Lothar Matthaus have both lifted the World Cup. And they both wear Puma boots.

On the track Jonathan Edwards, Linford Christie, Heike Drechsler, Merlene Ottey and Colin Jackson all wear Puma. Between them they have won 39 Olympic and World Championship medals. No fewer than nine of which were gold. And we all know that gold is good for the bank balance.

Very good, indeed.

PUMA

Abbey National faces French tax dispute

By George Graham, Banking Correspondent

Abbey National, the home loans and retail banking group, is caught in a £140m ($212.8m) dispute with the French tax authorities over a contested leasing transaction.

Abbey National said it expected a demand from the French authorities for the repayment of tax credits received by its capital markets and leasing arm, Abbey National Treasury Services.

It said, however, that it had been advised by both French and British lawyers and by its auditors that it had strong grounds for challenging the claim.

The £140m argument is disclosed in Abbey National's accounts as a contingent liability. That means the potential liability had not materialised by the date of the balance sheet and was not regarded as so likely to do so that a specific provision was required.

Abbey National's auditors, Coopers & Lybrand, would have had to accept the view that no provision was required.

If Abbey National wins its argument with the French tax authorities, it will receive a profits boost from additional payments due from the transaction – over and above the disputed £140m – which it has deferred in its accounts.

The dispute revolves around a leasing transaction three years ago. Abbey National would not comment on the specific case, but said it had not since been involved in any similar deal.

Such transactions typically involve financing an asset such as a piece of mechanical equipment. The company using the equipment benefits from not having to pay the full cost up front, while the bank financing the transaction gains from being able to claim capital allowances against tax.

The £140m contested tax credit amounted to 3.6 per cent of Abbey National's shareholders' funds at the end of last year.

Scots raid the south again

Simon Holberton explains why Scottish Power wants a multi-utility

It will be a brave English utility executive who in future lays out the welcome mat for Scottish Power.

Twice in 12 months the Glasgow-based utility has come knocking on the door of an English utility seeking to "benchmark" work practices, and twice has it sought to acquire the company in question.

Manweb fell to the Scots last autumn after a £1.1bn ($1.67bn) hostile bid. It set its sights higher yesterday with its finely balanced £1.56bn bid for Southern Water, the south-east of England water company.

Mr Ian Russell, Scottish Power's finance director, demurs at any suggestion that the company uses benchmarking to spot potential bid candidates. Besides, he says, Manweb and Southern Water are different.

"The philosophy of the Manweb bid was that we thought we could manage the business better. In contrast, Southern Water is a quality business. It is a growth opportunity with a good financial fit."

Mr Russell is also keen to underline the cordiality of Scottish Power's relations with Southern Water. Hence the company's decision not to acquire shares in the market yesterday, in spite of the announcement of its bid terms "given the media comment".

Southern Water prefers to use adjectives such as "civil" and "professional" to describe the relations between the two companies.

"They were quite happy the way they were," said an adviser to Southern Water. "But they are where they are now, and they have to get the best deal."

So far, analysts say, Southern Water's board has performed well. They have been successful at extracting a bid of £1.56bn from the Scots which is seen as being "quite generous," according to Mr Nigel Hawkins, utilities analyst at Yamaichi Securities. "It is possibly one step too far, but at the moment it is too early to tell," he says. "If they get it, the following six to eight months will be important to see if they can extract the promised earnings enhancement and show us that there have been no mishaps."

The gloss applied by Scottish Power's management to its bid was that it would help it create the UK's leading multi-utility group. The idea of "multi-utility" is seductive.

It suggests that a utility that spans services – electricity, gas, water, telecoms – can enhance the value of its assets through the application of systems common to all, such as billing, customer helplines and meter reading.

If Scottish Power succeeds it will have a customer base of some 5m customers in Scotland, England and Wales. With harriers to the competitive supply of electricity and gas coming down in April 1998 the company argues that it will be well placed to compete efficiently for customers.

To some harder heads in the City, however, Scottish Power's deal is financially driven. One analyst estimates that the "earnings enhancement" from the deal could be more than 20 per cent. This is because the cost to Scottish Power of raising debt and equity to pay for it is far lower than the stream of profits Southern Water generates. "This is a transaction designed by a conglomerate management team creating a conglomerate utility," said the analyst.

But yesterday, with Scottish Power having displayed its wares, the focus of attention turned to Southern Electric. If it enters the bidding contest – as many expect it will do – it is deal it could ill afford to lose.

Always the bridesmaid, never the bride, Southern Electric has seen a string of bids and deals fail, such as merger talks with Midlands Electricity in 1994, its failed tilt at Sweb, and the failed tie-up with National Power. Analysts believe Mr Jim Forbes, chief executive elect, will want to make his mark.

An adviser to him said yesterday: "A tie-up with Southern Water makes an awful lot of commercial sense."

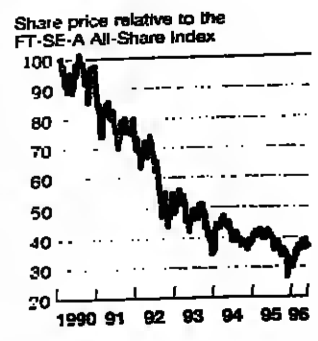
It is a bid more likely to be welcomed by Southern Water. Its management feels that a tie-up with Southern Electric offers as many "strategic" benefits as one with Scottish Power. They would also rather be part of a group they could influence rather than the English outpost of a Scottish utilities empire.

But as a Southern Water adviser observed: "Southern Electric needs to come up with a cash alternative: at the end of the day cash is going to be the main thing."

Many analysts believe that Southern Electric could well afford a bid for Southern Water at about £10 a share. It would stretch the company's gearing to 150 per cent and leave interest cover at more than three times. "That's the limit of their cash spend," one observed.

LEX COMMENT

Ladbroke



Source: FT Extel

The £100m sale of the Langham Hilton in London is a welcome first step in Ladbroke's stated strategy of selling hotel assets to fund the development of a more global hotel management group. Hotel management represents a far less volatile source of earnings, so the sale is good news. Nonetheless, Ladbroke's shares have jumped 50 per cent since mid-November in anticipation of possible mergers or acquisitions: the Langham deal provides only a little more fundamental justification for a high share price. Based on 1996 profit forecasts of £160m, Ladbroke's price/earnings ratio is nearly 40 per cent higher than the UK average. Given the hefty premium necessary for a hostile bid, it is hard to see who would be tempted at the current price. Hopes of a further rerating must rest on a link-up with Hilton Hotels Corporation, which owns the Hilton brand name in the US. A joint worldwide marketing deal for Hilton makes sense. But the real value would be in merging the two hotel businesses. Significant costs could be removed by combining head offices, marketing expenditure, and reservation networks. Mr Stephen Bollenbach, former deal maker at Walt Disney and Marriott, has arrived as chief executive of HHC and there is a good chance he will shake things up. Uniting marketing for the Hilton brand looks a first step towards a more lasting solution, although this would not transform profits for either group in the short term. Nonetheless, Ladbroke has been labelled a recovery stock for four years, and earnings are finally recovering. Patience should eventually be rewarded.

UAP arm to cut debt via offer

By Ralph Atkins, Insurance Correspondent

Sun Life and Provincial, the UK and Ireland arm of UAP, the France-based insurer, plans to reduce debt by about £320m ($486m) using proceeds of a £500m public offering pitched at retail as well as institutional investors.

The offer is expected to value Sun Life and Provincial at between about £1.25bn and £1.5bn. The target price range for the shares is believed to be 210p to 275p. UAP intends to retain a majority stake.

Most of the proceeds will be used to reduce the borrowings of Sun Life and Provincial's holding company from £612m, as part of lossmaking UAP's overall debt reduction programme.

Launching the pathfinder prospectus yesterday, Mr Michael Hart, Sun Life and Provincial chief executive, said that selling a minority stake in the company would increase local management autonomy and financial flexibility. He did not rule out acquisitions.

Mr Hart said smaller investors were being invited to subscribe because, as a savings institution, the company encouraged people to buy its products. "We think it is important that they also have the opportunity to invest in the company itself".

The minimum investment will be £1,000, however, and, although Mr Hart said retail investors would be treated "equitably", the offering could go ahead with only backing by institutional investors.

Marketing to institutional investors begins later this week. The retail prospectus is expected on June 10.

Partial flotation for Dairy Crest

By Alison Maitland

Dairy Crest, the UK's third largest milk processor, is today expected to announce that it will float a 30 per cent stake this summer.

The 27,000 dairy farmers who currently own the company are expected to be allocated 70 per cent of the equity, while the rest will be offered for sale to institutions.

The announcement will coincide with the company's annual results, which analysts expect to show a 68 per cent surge in profits to about £37m.

Dairy Crest, set up by the now defunct Milk Marketing Board, is expected to be valued at about £200m.

Part of the proceeds will be used to pay back a rolling fund, worth £66m, which farmers had paid to the MMB in the form of levies. The fund was used to provide working capital and has to be reimbursed by next March.

The company, which has been preparing for flotation since 1990, appears to have shrugged off fears that the BSE crisis could thwart its plans finally to come to the stock market. Dairy companies saw their shares badly hit shortly after the crisis broke on March 20, and both Northern Foods and Unigate have yet to recover fully.

Mr John Houliston, Dairy Crest chief executive, is keen to expand the company both in Britain and abroad.

Deregulation of the market forced Dairy Crest to cut capacity, losing 21 out of 32 plants and reducing its workforce from 13,000 to 4,000.

Schroders, the merchant bank, is advising the residuary milk board on the float.

Ladbroke sells Langham Hilton

By Geoff Dyer

Ladbroke Group yesterday confirmed the sale of the Langham Hilton hotel for £100m ($152m) to Great Eagle Holdings, the Hong Kong property and hotels company.

Ladbroke, the hotels and leisure group, said the disposal was part of its strategy to reduce its investment in hotel properties and to focus on hotel management.

As part of the deal, Ladbroke, which owns Hilton International, will continue to manage the 380-room hotel, which made a profit of £7.5m last year. The typical management contract is worth £750,000 a year to the group.

The £100m consideration is almost identical to the hotel's book value, which was re-assessed at the end of last year.

Ladbroke bought the Langham site in 1986, where a hotel had been opened in 1865 but was later converted into offices. The hotel was re-opened in 1991 and Ladbroke said it had invested about £100m in the site.

The proceeds bring group debt, which was £1.02bn at the year-end, to less than £1bn for the first time since 1988, and cut gearing, which was 57 per cent, by six percentage points.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Blacks Leisure	Yr to Feb 29	68.4	(65.6)	2.11♠	(0.508)	5.54	(1.62)	1.75	Oct 4	1.5	2.5	2.25
Delyn	Yr to Jan 31	19.1	(17.5)	5.92♥	(0.853)	52.63	(6.57)	1.5	Aug 1	1.25	10✲	1.75
Lawrie Φ	Yr to Dec 31	217.3	(204)	12.6	(15.7)	262.3‡	(299.32)	69大	June 11	69大	83大	84大大
Plysu	Yr to Mar 31	129.3	(99.5)	5.9♠	(5.48)	9.6	(9.1)	5.35	July 23	5	7.35	7
Smart (J)	6 mths to Jan 31	6.05	(7.9)	1.32	(1.21♥)	8.77	(8.04)	2.5	July 15	2.4	-	9

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
British	Yr to Mar 31	270	(225)	20.1	(18.9)	6.45	(6.06)	3.3	July 19	3.1	5.5	5.2
Dunedin Worldwide	6 mths to Apr 30	1,048.4	(834.7)	2.46	(1.69)	7.34	(5.05)	2.4	July 5	2.4	-	9.5
Fleming Overseas	Yr to June 30	-		-		-		3.1#	June 27	3.1	4.6	4.6
M&G Income	3 mths to Apr 30	80.59	(69.16)	4.38	(3.8)	1.77	(1.53)	1.05	July 19	1	-	5.25
M&G Recovery	Yr to Mar 31	80.37	(65.31)	7.4	(5.38)	5.46	(3.99)	2.45‡	July 5	1.2	5.3	3.95
Murray	Yr to Apr 30 ★	717.2	(572.2)	10.1	(8.57)	13.04	(11.05)	6.2	Aug 8	5.5	9.7	7.5
Scottish	6 mths to Apr 30	324	(281.4♦)	7.34	(5.89)	2.59	(2.21)	1.96	July 18	1.85	-	5.67

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ΦAim stock. ‡On reduced capital. 大Foreign income dividend. 大大Includes FID element of 69p. ✲Includes 8p special. ★ Comparatives restated. #Second interim in lieu of final; paid early to utilise ACT allowances. ‡Includes approximately 1p in respect of non-recurring special from Lloyds Bank/TSB merger. ♦At October 31.

COMMODITIES AND AGRICULTURE

Canadian producer sees gold price hitting $450

By Kenneth Gooding, Mining Correspondent

Placer Dome, second largest of the North American gold producers, expected the price of the precious metal to rise in the short term to between US$400 and $450 a troy ounce, said Mr John Willson, president, yesterday.

In order to provide shareholders with greater exposure to this expected rise, Placer has cut its hedging of future production by more than 30 per cent or 1.7m ounces (52.8 tonnes).

"We have recently taken a more bullish view of the [gold] market because the fundamentals are very strong," Mr Willson said in London at a presentation to investors and analysts. "We don't see a dramatic rise in the price but we will hedge in future only if we can realise more than $450 an ounce."

Placer is following the example set by another Canadian group, Barrick Gold, North America's biggest gold producer, which revealed early this year that it had cut its hedge position by one third, from 9m ounces to 6m ounces.

Mr Willson made it clear that, like Barrick, Placer had no intention of entirely giving up its hedging operations which had netted more than $400m in extra earnings since 1987. The group was growing rapidly at present, he pointed out, "so it is prudent to hedge some production". The group still had 3.8m ounces (118 tonnes) of future gold production hedged at prices up to $504 an ounce.

At today's gold price of $392 an ounce, Placer's remaining hedge position had unrealised gains of more than $100m.

By closing out hedge positions covering 1.7m ounces, the group had locked in pre-tax gains of $29m which would be included in reported earnings from the third quarter of 1996 to the fourth quarter of 1997. In addition, hedging activities would add $10m to Placer's operating earnings in the second quarter of this year.

Mr Willson recalled that in 1993 Placer set itself a target of reaching annual gold production of 2.5m ounces and ten years of reserves by the year 2,000 while remaining in the lower third of the industry's world cost league. It was now clear the group could reach that objective during 1998.

Gold output this year should be about 2m ounces compared with 1.858m in 1995. However, production problems during the first quarter of 1996 meant that Placer would not be able to match last year's cash operating costs, including royalties, of $217 an ounce.

● Marcopper in the Philippines, which closed its 40,000 tonnes a year mine on March 24 after tailings (waste) began leaking into a nearby river, was unlikely to re-start operations for another six months, said Mr Willson. He said that, contrary to local Press reports, criminal charges had not been brought against some Marcopper employees and Placer's view was that criminal charges were not appropriate as the escape of tailings was an accident. Two ex-patriot Marcopper employees had been asked not to leave the country while inquiries were conducted. As 40 per cent owner of Marcopper, Placer was in no position to tell the company what to do. Nevertheless, if no one else was willing or able to do what was necessary to clean up, rectify and to compensate local people, Placer would do so.

● Gilbraltar Mines was planning to start construction of the Lomas Bayas copper mine in northern Chile this year, said Mr Willson. Output would be about 60,000 tonnes of copper a year but there was a possibility this might be increased to 90,000 tonnes. In line with its focus on gold, Placer had not participated when Gibraltar recently raised funds for the project and Placer's shareholding had consequently been reduced from 44.4 to 30.9 per cent.

Managers replaced at Russian nickel group

Russia's Norilsk Nickel metals group had purged its top management as part of a strategy that might change the way it sold nickel on world markets, a company official said yesterday, reports Reuters from Moscow.

In a telephone interview he said Norilsk was considering selling some nickel directly to Glencore International of Switzerland, instead of to subsidiaries and other companies for resale on world markets.

"Glencore is guaranteeing that it will pre-pay for the metal and commit long-term investment, which means that the companies we sell to today might be replaced in part by Glencore," he said. "Some companies are offering better sales terms, and Glencore is one of them."

Norilsk, one of the world's biggest nickel, cobalt, platinum, palladium and copper producers, said it had reassigned 16 top managers and installed a board member, Mr Alexander Khloponin, as acting chief executive in place of Mr Anatoly Filatov.

Industry officials said Mr Khloponin was a board member of Uneximbank, which has a 38 per cent stake in Norilsk.

The Norilsk official said output would not be affected by the changes "because the production technologies are already in place".

The Norilsk management shake-out came after board members complained of delayed workers' salaries and worries that food and other unspecified supplies would not be delivered in adequate quantities to the Arctic town of Norilsk.

The group's nickel output last year was 180,100 tonnes and refined copper production was 338,700 tonnes. Officials have said 1996 nickel output will rise by 3 per cent and refined copper output by 6 per cent.

Indian sugar mills seek export boost

By Kunal Bose in Calcutta

The Indian Sugar Mills Association has asked the federal government for a further release of 1m tonnes of sugar for export in the current season, ending September 30. Earlier, the government allowed the export of 1m tonnes in two equal instalments.

"We hope to get the sanction for additional export as soon as the new government settles down to work," said Mr Vivek Saraogi, president of Isma.

"There is a strong case for the country exporting 2m tonnes of sugar since the production in the current season will be a record 15.8m tonnes, against the earlier estimate of 15.5m tonnes and last year's output of 14.64m tonnes. Moreover, we opened the year with stocks of nearly 5.6m tonnes. The surplus, after providing for domestic consumption, will be unmanageable, if we do not export sugar in a big way."

The Indian Sugar & General Industries Exim Corporation, the agency for sugar exports, has made sales contracts for over 900,000 tonnes out of the sanctioned quota of 1m tonnes. Shipment of 550,000 tonnes has already been completed.

"We have been using as many as eight ports for exporting sugar," said Mr Om Dhanuka, an Isma spokesman. "The Bombay port will not be able to handle sugar once the monsoon starts. But there will be no let up in export shipments from the other ports. ISGIEC should be able to ship out everything before the current season is over."

Among the principal buyers of Indian sugar are Sri Lanka, Pakistan, Bangladesh, Burma, Indonesia and Russia. In addition to open market sales India is exporting a total of 33,893 tonnes of raw and white sugar to the European Union and the US in the current season.

While the industry is confident that the government will allow further exports, it does not know whether its appeal for expanding the buffer stock by 1m tonnes to 1.5m tonnes will meet with official approval. The government created a buffer of 500,000 tonnes in January 1996 and it pays for the cost of interest, storage and insurance. It is because of the cost factor that the government may not raise the size of the buffer.

"But unlike buffer, the export does not impose any burden on the government," said Mr Dhanuka. "The loss in export sales is equitably shared by all the sugar factories. Moreover, the excess supply of the commodity in the current season is a guarantee that sugar prices will remain low whatever the volume of export."

Strong demand reported for NZ kiwifruit

By Terry Hall in Wellington

New season kiwifruit is meeting strong demand in world markets helped by initiatives aimed at getting fruit to consumers earlier and fresher.

While it is early days yet - the first cargoes for the important European market only arrived last week - the Kiwifruit Marketing Board says sales and revenue from Japan, Asia and elsewhere is running five times higher than the same time last year.

Comparisons are difficult, however, as cold weather badly delayed the start of last year's export season and presented competitors such as Chile with minimal competition from New Zealand fruit for weeks. This, coupled with the strong New Zealand dollar, was primarily responsible for the fall in total earnings for kiwifruit of NZ$1.01 (60 US cents) to NZ$4.23 a tray in the season just ended. That was better news than expected, however. In November orchard owners were warned to expect only NX$3.88 a tray.

At its meeting yesterday the Kiwifruit Marketing Board confirmed the NZ$4.23 as actual grower earnings, including kiwi and jumbo, or large fruit, based on a total market return of NZ$247.74m.

Growers had expected a low payout as they had become aware of slow maturing fruit last season, because of warm moist weather. That meant the crop arrived late in the main market Europe, missing the so-called "window of opportunity" for New Zealand produce.

The fruit was also much bigger than usual, and the once sought-after size 42 fruit sold at a substantial discount. The board also encountered intense competition in Japan from Chilean and domestically grown fruit. Chile doubled its exports there and sold at low prices. The Japanese recession last year further limited demand and volumes sold fell by 21 per cent.

The board said most other markets performed at or above forecast levels. Sales in Argentina and South America grew strongly, as they did the Middle East, despite competition from Iran. Trading conditions continued to be difficult in the US, where the anti-dumping order against New Zealand kiwifruit remained in force.

The board said there were promising signs for the new season. The Japanese economy was showing "slight" signs of recovery, although Europe was "generally flat". However, there was less fruit than usual remaining unsold from last season, and that suggested that early sales this season would be strong.

Marketing efforts this season will concentrate on expansion of the distribution network in Japan and Britain and competitive pricing. Major efforts will be made on promotions, as well as a new "sell-smart" pack sizes.

Unlike last year the fruit has been of "excellent" quality. The board said the average fruit was smaller than expected and the total crop would be slightly less than the 60m trays forecast.

New varieties were being tested and would be subjected to continuing quality, storage and market evaluation over the coming months.

Last season a total 57.9m trays were sold and the average market price was NZ$1.16 down from NZ$1.42 a kilogram in the previous year. The average orchard owner earned NZ$14,567 a hectare, down from NZ$18,162 last year. The total market return was NZ$244m. NZ$44.4m less than in 1994-95.

MARKET REPORT

Nickel shines at the LME

NICKEL was the outstanding performer on the London Metal Exchange yesterday, ending the afternoon at $8,000 a tonne, up $140, in the three months delivery position. "It was speculative buying today rather than trade buying," said a dealer, adding that business was patchy.

Nickel's strength was attributed by some traders to management changes at the top of Russian nickel giant Norilsk. Norilsk's exports are seen as a key swing factor in the Western world's supply/demand balance.

Three month COPPER futures ended the after hours "kerb" trading session at $2,436 a tonne, up $18 from Friday's close, while the cash price edged back from a premium of $130 a tonne in the afternoon. Traders said hefty "backwardations" (nearby premiums) were deterring sellers. "The market seems to be settling in a $2,410/70 range for now, but volatility could return around the June and July pricing dates," said one trader.

At the London Commodity Exchange robusta COFFEE futures ended higher on trade and roaster support but the spot May premium was dissolving in response to a rise in gradings in preparation for physical delivery, traders said.

Compiled from Reuters

Decline in Australian wool production forecast

By Bethan Hutton in Sydney

Australian wool production is set to decline by 2 per cent in 1995-96 and a further 1 per cent in 1996-97, but should start to recover after that, according to wool broker Wesfarmers Dalgety. It forecasts production of 672m kg of wool in 1995-96, down from 683m, falling to 668m kg in 1996-97. Varying conditions across the country mean that New South Wales could see increased volume in 1996-97, while Queensland output could rise by 5 per cent.

● The value of Australia's wool exports declined by 16.6 per cent to A$2,579bn (US$2bn) in the first nine months of the 1995-96 financial year, Wool International reported yesterday.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1552-53	1584-84.5
Previous	1566-67	1596-97
High/low		1592/1577
AM Official	1547-48	1577-77.5
Kerb close		1581-82
Open int.	224,744	
Total daily turnover	37,340	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1552-53	1584-84.5
Previous	1305-10	1343-44
High/low		1337/1330
AM Official	1280-90	1320-25
Kerb close		1325-30
Open int.	4,904	
Total daily turnover	641	

■ LEAD ($ per tonne)

Close	827-28	830-31
Previous	832.5-33.5	837-38
High/low		838/825
AM Official	829-30	832.5-33.0
Kerb close		825-26
Open int.	35,720	
Total daily turnover	5,805	

■ NICKEL ($ per tonne)

Close	7865-75	7975-80
Previous	7780-90	7880-90
High/low	7850	8000/7880
AM Official	7840-50	7968-70
Kerb close		7995-8000
Open int.	43,017	
Total daily turnover	13,564	

■ TIN ($ per tonne)

Close	6205-15	6250-60
Previous	6230-40	6270-75
High/low		6310/6240
AM Official	6230-40	6275-80
Kerb close		6225-30
Open int.	16,718	
Total daily turnover	3,423	

■ ZINC, special high grade ($ per tonne)

Close	1025-26	1052-53
Previous	1028-29	1053-54
High/low	1023/1022.5	1056/1048
AM Official	1022.5-23.0	1049-50
Kerb close		1052-53
Open int.	72,065	
Total daily turnover	15,881	

■ COPPER, grade A ($ per tonne)

Close	2563-68	2437-38
Previous	2583-38	2423-25
High/low		2447/2430
AM Official	2567-68	2437-38
Kerb close		2435-36
Open int.	185,930	
Total daily turnover	47,796	

■ LME AM Official £/$ rate: 1.5113
LME Closing £/$ rate: 1.5128

Spot: 1.5131 3 mths: 1.5109 6 mths: 1.5092 9 mths: 1.5060

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	121.00	+1.80	127.40	119.50	476	1,892
Jun	117.40	+1.35	118.20	116.80	432	3,416
Jul	113.00	+0.95	114.90	113.30	5,482	14,332
Aug	111.70	+0.75	113.00	111.10	16	858
Sep	109.85	+0.60	111.20	169.80	536	5,868
Oct	109.00	+0.65	109.80	109.78	40	683
Total					7,741	38,854

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	391.80-392.20		
Opening	391.00-391.40		
Morning fix	392.15	259.444	498.619
Afternoon fix	392.00	259.242	498.624
Day's High	392.40-392.80		
Day's Low	390.90-391.30		
Previous close	390.50-390.90		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.63	6 months	4.29
2 months	4.55	12 months	3.96
3 months	4.49		

Silver Fix	p/troy oz.	US cts equiv.
Spot	353.15	534.00
3 months	357.85	540.30
6 months	362.40	548.60
1 year	371.95	560.00

Gold Coins	$ price	£ equiv.
Krugerrand	392-395	259-261
Maple Leaf	402.65-405.15	
New Sovereign	92-95	61-63

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	391.4	+0.6	391.7	391.3	-	-
Jun	391.6	+0.7	392.6	390.5	17,092	50,396
Jul	393.1	+0.6	-	-	-	-
Aug	394.8	+0.5	396.0	394.1	11,649	59,014
Oct	397.7	+0.6	398.8	398.0	308	5,946
Dec	400.6	+0.8	401.6	399.1	533	33,173
Total					32,392	203,783

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	402.3	+2.0	404.0	400.5	791	19,644
Oct	405.6	+2.0	407.5	404.5	269	4,883
Jan	408.6	+2.1	-	-	50	1,047
Apr	411.6	+2.4	413.5	413.0	5	1,507
Total					1,116	27,081

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	131.05	+1.25	131.50	130.25	934	2,816
Sep	132.05	+1.50	132.50	131.00	751	5,588
Dec	133.15	+1.35	133.50	132.75	195	847
Total					1,880	9,251

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

May	533.3	+1.7	535.5	533.5	14	33
Jun	533.7	+3.5	-	-	1	3
Jul	535.8	+3.5	538.5	531.0	7,057	84,449
Sep	541.1	+3.6	543.5	538.0	266	14,789
Dec	548.9	+3.7	552.0	548.0	30	9,879
Mar	556.8	+3.6	561.0	561.0	37	3,718
Total					7,377	100,468

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	21.18	-0.16	21.60	21.07	19,541	92,242
Aug	20.21	-0.11	20.53	20.13	8,827	47,747
Sep	19.53	-0.07	19.72	19.40	2,843	37,865
Oct	19.02	-0.11	19.20	18.98	812	23,030
Nov	18.72	-0.13	18.91	18.68	903	18,367
Dec	18.55	-0.07	18.65	18.47	1,965	33,558
Total					35,880	383,149

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	18.98	-0.12	19.23	18.94	12,968	79,614
Aug	18.34	-0.09	18.53	18.32	4,437	35,541
Sep	17.80	-0.08	18.05	17.80	974	13,043
Oct	17.81	-0.07	17.76	17.61	140	9,891
Nov	17.37	-0.05	17.55	17.37	435	5,265
Dec	17.20	-0.02	17.25	17.20	257	11,956
Total					16,143	180-583

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	54.50	+0.04	54.85	53.95	7,367	11,975
Jul	53.70	-0.13	54.15	53.20	5,642	20,850
Aug	53.60	+0.02	53.90	53.10	1,404	14,212
Sep	53.90	-0.18	54.10	53.50	407	9,625
Oct	54.25	+0.02	54.45	54.25	91	4,919
Nov	54.60	-0.00	54.90	54.60	367	5,681
Total					17,536	89,701

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	166.25	-2.50	169.75	166.00	5,831	13,605
Jul	164.00	-0.75	166.00	163.50	1,671	10,968
Aug	163.25	-0.50	165.00	163.25	560	7,200
Sep	163.25	-0.75	164.50	164.25	160	4,795
Oct	163.00	-1.00	164.75	163.25	189	1,938
Nov	163.00	-1.25	164.75	164.75	30	1,451
Total					8,538	81,513

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.345	-	2.370	2.320	32,201	3,513
Jul	2.415	+0.032	2.420	2.375	8,275	33,730
Aug	2.430	+0.030	2.435	2.380	3,828	19,360
Sep	2.390	+0.080	2.390	2.360	998	16,835
Oct	2.380	+0.030	2.365	2.330	692	12,874
Nov	2.385	+0.031	2.390	2.360	376	9,146
Total					48,898	142,854

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	63.05	-1.67	65.20	62.90	11,172	13,805
Jul	62.75	-1.00	64.20	62.55	6,006	22,483
Aug	61.30	-0.55	62.10	61.20	2,514	14,261
Sep	59.40	-0.20	58.90	59.40	859	4,055
Oct	58.00	+0.15	55.00	58.80	428	1,485
Nov	54.60	-0.15	54.85	54.60	96	1,097
Total					21,887	58,458

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	131.25	+0.85	131.25	129.50	71	1,546
Sep	113.50	-	115.00	115.00	-	367
Nov	115.65	+0.25	115.65	114.95	174	3,079
Jan	117.25	-	117.50	117.25	-	994
Mar	119.20	-	119.50	119.30	-	199
May	121.20	-	121.25	121.25	15	89
Total					245	6,274

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	546.00	-15.00	565.50	541.00	12,054	52,164
Sep	546.75	-15.25	567.00	542.00	4,970	17,338
Dec	552.75	-16.75	573.50	549.50	2,334	20,187
Mar	549.00	-16.50	570.00	545.50	208	1,968
May	496.00	-17.00	512.00	495.00	22	137
Jul	440.00	-7.50	447.00	438.00	132	1,577
Total					19,720	93,531

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	478.50	-10.25	498.50	476.75	19,328	142,974
Sep	412.50	-0.50	425.00	404.00	10,374	71,797
Dec	363.50	+5.00	370.50	353.50	28,563	156,829
Mar	369.25	+6.00	375.25	360.00	1,000	18,430
May	370.25	+4.75	377.50	362.00	97	2,974
Jul	370.75	+6.25	376.50	361.00	148	3,908
Total					59,875	401,683

■ BARLEY LCE (£ per tonne)

Sep	106.50	+0.16	-	-	-	63
Nov	108.75	+0.25	109.00	108.50	2	627
Jan	112.00	-	-	-	-	128
Mar	114.00	-	-	-	-	41
May	115.25	-	-	-	-	16
Total					2	885

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	801.50	-6.00	818.00	796.00	15,703	72,675
Aug	801.50	-5.25	816.50	796.00	2,376	14,120
Sep	796.50	-1.00	799.50	780.50	525	6,835
Nov	777.25	+0.25	788.50	770.50	8,918	81,936
Jan	784.00	+0.50	792.50	778.00	435	7,465
Mar	790.00	+1.50	797.00	784.50	47	2,997
Total					28,197	194,135

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	27.18	-0.15	27.63	26.92	6,380	45,419
Aug	27.35	-0.14	27.75	27.11	792	12,066
Sep	27.55	-0.12	27.85	27.30	184	5,999
Oct	27.70	-0.10	27.85	27.54	358	4,797
Dec	27.94	-0.07	28.23	27.85	1,823	20,381
Jan	28.00	-0.61	27.95	27.80	24	1,687
Total					8,718	92,628

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	245.9	-1.5	251.0	244.8	8,443	44,672
Aug	246.1	-1.2	251.0	244.6	1,541	11,681
Sep	244.8	-0.6	249.0	243.5	585	7,307
Oct	242.3	-0.6	246.0	241.5	262	3,579
Dec	241.9	-0.3	246.0	240.5	1,657	20,140
Jan	242.5	+0.2	243.7	241.5	191	1,612
Total					12,813	91,112

■ POTATOES LCE (£/tonne)

Jan	225.0	-	-	-	-	-
Nov	82.5	-	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	118.3	-2.7	121.0	118.5	115	1,123
May	135.0	-	-	-	-	1
Total					115	1,139

■ FREIGHT (BIFFEX) LCE ($10/index point)

May	1366	+4	-	-	-	586
Jun	1254	+14	1250	1250	2	573
Jul	1217	+3	1270	1210	2	2,087
Oct	1326	+3	1325	1321	7	1,288
Jan	1340	-5	1340	1335	10	55
Apr	1383	+11	-	-	-	32
Total					18	4,616

	Close	Prev
BFI	1373	1387

FUTURES DATA
All futures data supplied by CMS.

Minor Metals
European free market, from Metal Bulletin. $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 2,950-3,100 (2,875-3,050). Bismuth: min. 99.99%, tonne lots 3.25-3.75 (3.30-3.80). Cadmium: min. 99.95%, 105-110 (110-120) cents a pound. Cobalt: MB free market, 99.8%, 27.50-28.20 (27.60-28.20); 99.3%, 25.80-26.20 (26.00-26.50). Mercury: min. 99.99%, $ per 76 lb flask, 160-175 (160-180). Molybdenum: drummed molybdic oxide, 3.00-3.15 (2.85-2.60). Selenium: min 99.5%, 3.30-4.10. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 52-62. Vanadium: min. 98%, cif, 3.05-3.15. Uranium: Nuexco exchange value, 14.50.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1081	-4	1090	1080	12	31
Jul	1108	-10	1125	1107	1,070	20,689
Sep	1128	-10	1144	1128	814	46,006
Dec	1057	-5	1069	1057	348	30,332
Mar	1043	-8	1055	1044	544	34,906
May	1053	-7	1064	1055	247	19,537
Total					3,516	164,853

■ COCOA CSCE (10 tonnes; $/tonnes)

Jul	1363	-20	1388	1362	3,067	25,796
Sep	1380	-20	1402	1379	947	19,988
Dec	1403	-19	1424	1402	158	17,891
Mar	1415	-17	1420	1415	9	13,587
May	1431	-16	1431	1431	1	6,066
Jul	1444	-16	-	-	-	5,630
Total					4,189	93,805

■ COCOA (ICCO) (SDR's/tonne)

May 24	Price	Prev. day
Daily	1066.38	1057.40

■ COFFEE LCE ($/tonne)

May	1855	-20	1910	1837	55	809
Jul	1813	+17	1819	1796	1,572	15,302
Sep	1791	+14	1802	1780	527	7,570
Nov	1776	+12	1792	1775	210	3,117
Jan	1745	+4	1764	1752	21	1,755
Mar	1711	+3	1712	1712	125	908
Total					2,388	29,461

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	116.85	-0.80	118.35	116.50	4,154	15,390
Sep	116.00	-0.85	117.30	115.65	709	6,449
Dec	114.05	-0.50	115.50	114.00	161	3,212
Mar	113.00	-1.00	114.00	112.50	35	982
May	112.55	-0.45	113.00	116.00	3	337
Total					5,062	26,439

■ COFFEE (ICO) (US cents/pound)

May 24		Prev. day
Comp. daily	105.11	105.17
15 day average	111.17	111.68

■ WHITE SUGAR LCE ($/tonne)

Aug	375.5	-1.6	380.0	374.5	2,203	11,344
Oct	343.5	-1.9	346.5	343.0	205	5,643
Dec	332.1	-1.8	335.4	333.1	18	3,862
Mar	330.1	+0.3	331.1	327.5	197	3,387
May	328.6	+0.5	329.0	326.5	17	1,387
Aug	327.6	+1.2	327.5	327.6	307	556
Total					1,858	26,608

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	11.01	-0.25	11.33	11.00	5,264	62,283
Oct	16.85	-0.13	10.61	10.64	1,834	39,116
Mar	10.65	-0.12	10.78	10.64	1,225	20,314
May	10.61	-0.10	10.72	10.60	111	9,693
Jul	16.55	-0.11	10.67	10.55	303	7,114
Oct	16.50	-0.11	10.63	10.61	15	2,881
Total					6,752	150,843

■ COTTON NYCE (50,000lbs; cents/lbs)

Jul	81.30	-1.25	81.70	80.60	6,142	23,914
Oct	81.68	-1.28	61.00	80.85	586	4,288
Dec	81.35	-1.50	81.40	80.90	3,807	28,536
Mar	82.20	-1.45	82.25	81.80	114	3,607
May	82.80	-1.35	82.80	82.42	41	1,581
Jul	83.05	-1.25	82.90	82.67	50	692
Total					10,801	84,866

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	120.65	-1.30	122.50	120.50	294	11,593
Sep	120.00	-1.10	121.80	120.00	76	4,729
Nov	117.60	-0.60	118.25	117.60	119	1,418
Jan	115.35	-0.55	115.75	115.55	82	3,750
Mar	118.50	-0.95	117.00	116.45	-	258
May	116.80	-0.85	-	-	-	150
Total					571	21,913

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

May 28	May 24	month ago	year ago
2126.7	2118.4	2125.8	2302.3

■ CRB Futures (Base: 1967=100)

May 24	May 23	month ago	year ago
257.00	257.36	-	243.24

■ GSCI Spot (Base: 1970=100)

May 23	May 22	month ago	year ago
216.40	211.09	215.62	185.79

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	60.575	+0.075	60.850	59.425	4,355	25,700
Aug	63.175	-0.150	63.500	62.550	3,633	29,247
Oct	64.625	-0.250	64.800	64.350	1,176	21,033
Dec	62.550	-0.125	62.625	62.250	533	11,042
Feb	62.150	-0.050	62.350	61.975	368	9,464
Apr	65.400	+0.050	65.700	65.300	150	2,280
Total					2,259	52,623

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Jun	62.850	+0.750	62.900	61.025	3,245	10,852
Jul	58.625	+0.425	58.800	57.300	2,635	9,687
Aug	54.175	+0.075	54.250	52.800	1,904	6,928
Oct	49.725	-0.075	49.875	48.825	615	5,744
Dec	52.250	-0.100	52.350	51.500	516	5,866
Feb	72.100	+0.100	72.150	71.150	155	1,114
Total					10,016	42,424

■ PORK BELLIES CME (40,000lbs; cents/lbs)

May	88.725	-2.000	90.500	88.725	159	204
Jul	84.800	-2.000	86.400	84.800	905	6,094
Aug	82.375	-2.000	83.900	82.375	390	2,489
Feb	73.225	-0.275	74.900	72.700	63	544
Mar	74.500	+0.300	75.100	74.500	8	47
May	75.750	-2.000	77.500	77.500	11	55
Total					2,634	9,501

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1500	79	116	8	22
1600	43	78	22	39
1700	20	52	48	62
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
2400	127	86	26	85
2500	62	56	81	142
2600	26	30	123	213
■ COFFEE LCE	Jul	Sep	Jul	Sep
1900	38	115	126	224
1950	28	100	163	259
2000	22	87	205	296
■ COCOA LCE	Jul	Sep	Jul	Sep
875	233	259	-	3
900	208	232	-	4
925	183	208	-	5
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1850	-	-	-	-
1900	38	38	38	-
1950	23	24	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.33-T.41x	+0.010
Brent Blend (dated)	$19.52-9.57	-0.195
Brent Blend (July)	$18.07-8.09	-0.030
W.T.I.	$21.21-1.22x	-0.010

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$218-220	-6
Gas Oil	$172-173	-3.5
Heavy Fuel Oil	$86-87	
Naphtha	$189-191	-3
Jet fuel	$192-194	
Diesel	$174-176	-4

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	10.20-10.80

Petroleum Argus. Tel. London (0171) 359 8792

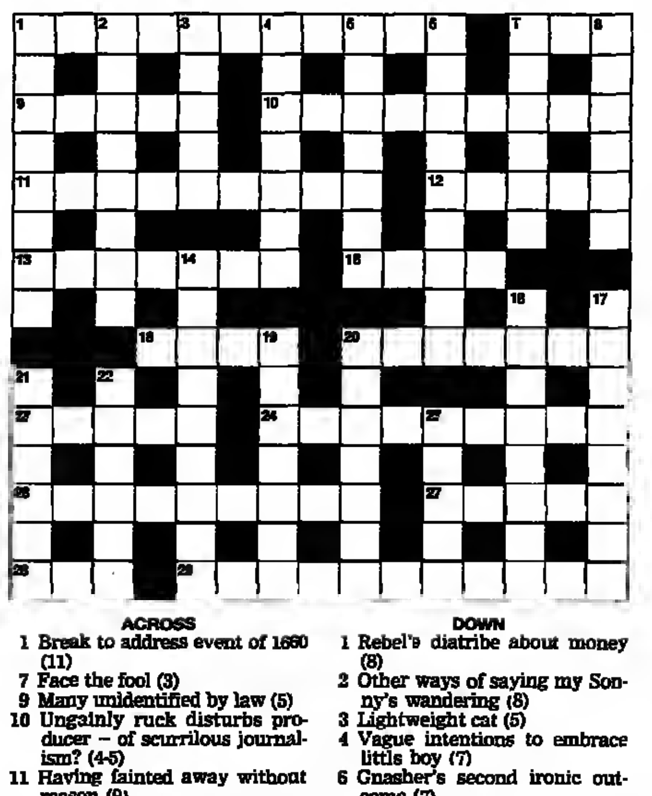
■ OTHER

Gold (per troy oz)♣	$392.00	+1.30
Silver (per troy oz)♣	537.50c	+0.50
Platinum (per troy oz.)	$400.00	+2.80
Palladium (per troy oz.)	$130.50	+1.75
Copper	134.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.51r	-0.06
Tin (New York)	294.50	
Cattle (live weight)	96.82p	-2.88*
Sheep (live weight)	158.01p	+17.97*
Pigs (live weight)†	122.99p	-2.00*
Lon. day sugar (raw)	$294.0	+2.5
Lon. day sugar (wte)	$397.0	+3.0
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	104.00p	
Rubber (Jul)♥	104.00p	
Rubber (KL RSS No1)	380.50m	+4.5
Coconut Oil (Phil)§	825.0v	+15.0
Palm Oil (Malay.)§	$525.0	-15.0
Copra (Phil)§	$521.0z	+6.0
Soyabeans (US)	226.0z	-0.5
Cotton Outlook'A' index	83.75c	+1.45
Wooltops (64s Super)	448p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z May/Jun. x Jul. v Apr/May. y Apr/Jun. w Jun/Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,790 head of pigs sold.

CROSSWORD

No.9,080 Set by DOGBERRY



ACROSS
1 Break to address event of 1660 (11)
7 Face the fool (3)
9 Many unidentified by law (5)
10 Ungainly ruck disturbs producer – of scurrilous journalism? (4-5)
11 Having fainted away without reason (9)
12 Invest with appropriate measure, the other way round (5)
13 Retiring seed is to get comeuppance (7)
15 Complain bitterly of public transport (4)
18 Confound it! – some get found out (4)
20 It's binding upon musicians to take time (7)
23 Emperor sending birds round the bend (5)
24 Get rid of period and point in time, keeping in charge (9)
26 Whers gamblers may be found to react badly to ruin (4-5)
27 Seaman's song of home (5)
28 Colours that don't begin to be affirmative (3)
29 Swim in calm surroundings, making happy finds (11)

DOWN
1 Rebel's diatribe about money (8)
2 Other ways of saying my Sonny's wandering (8)
3 Lightweight cat (5)
4 Vague intentions to embrace little boy (7)
6 Gnasher's second ironic outcome (7)
6 One new organ composition by Grieg, say (9)
7 Fuss after Kipling's work is turned to operetta (6)
8 Gem of a fishnet (6)
14 Small sibling keeps rowdy Inuits in disorder (9)
16 Food for revolutionary carrying vehicle to Ulster (8)
17 Cut off isle without mercy (8)
19 Strike up tune outside (4-3)
20 Torture in hill with undergrowth (7)
21 Turbulent tale involving high figure (6)
22 Investment in public humiliation (6)
25 National right to put a question in 2 (5)

Solution to Saturday's prize puzzle on Saturday June 8.
Solntion to yesterday's prize puzzle on Monday June 10.

INTERNATIONAL CAPITAL MARKETS

Europe quiet as high-yield markets outstrip bunds

By Samer Iskandar in London and Maggie Urry in New York

European bond markets started the week quietly after the long weekend. High yielding European markets continued to outperform German bunds. Mr David Brown, chief economist at Bear Stearns in London, described the movement as "a virtuous circle", with currency appreciation and yield declines offering each other mutual support.

Italian BTPs closed higher, but off their intra-day highs. Liffe's June BTP future settled at 116.21, up 0.56, after reaching a high of 116.46. The currency was firm on the foreign exchange market, reaching an 18-month high during the session at less than L1,004 against the D-Mark.

While this provided support for bonds, traders said the market did not have enough momentum to tackle the psychologically important level of 116.50. In the cash market, the 10-year benchmark BTP closed 0.37 higher at 101.26. Mr Brown remained very bullish on both BTPs and the lira, expecting the 10-year yield spread over bunds to tighten to about 250 basis points before the end of the summer, from 310 basis points yesterday.

However analysts at Lehman Brothers seemed less optimistic. Their regular survey of global investors suggested the proportion of investors strongly exposed to Italian bonds was 40 per cent in May, down from 53 per cent in April. Furthermore, only 21 per cent had long - or very long - durations in May, against 45 per cent in April.

■ Spanish bonds also outperformed the bund market. The June futures contract on 10-year bonds closed at 99.67, up 0.40 from Friday. During the session, it reached a high of 99.92. In the cash market, the 8.8 per cent bono due 2006 closed at 98.39, up 0.25.

GOVERNMENT BONDS

■ German bunds looked to Treasuries for inspiration but did not seem to find any. Liffe's June bund future settled at 96.93, down 0.05. The contract retreated after hitting a high of 97.15. Traders said the market would need support from rallying Treasuries to breach the 97.20 level, a technical resistance. Volatility is expected to remain low before tomorrow's meeting of the Bundesbank council.

■ French bonds traded in line with bunds. Matif's June notional future ended at 123.72, down 0.04, and was drifting lower, towards the 123.60 level in after-hours trading on Globex. The day's high was 124.10. In the cash market, the 10-year benchmark OAT lost 0.17 to 105.68, its yield spread over the equivalent bund unchanged at 3 basis points.

■ UK gilts were flat. Liffe's June long gilt future ended a very quiet session unchanged at 106 11/32, while in the cash market, the 7¼ per cent gilt due 2006 closed at 96 3/16, up 1/32. Market participants are hoping for some indication on the future direction of yields from the outcome of today's auction of £3bn of 8 per cent gilts due 2021. Lehman Brothers' survey suggests investors have increased the duration of their gilt portfolios in the past month.

■ US treasuries drifted lower in quiet post-Memorial Day trading. Slightly adverse economic statistics and anticipation of this week's monthly auctions put some pressure on prices.

Near midday, the benchmark 30-year Treasury was down 1/32 at 89 5/16 to yield 6.840 per cent, while at the short end of the maturity spectrum, the two-year note dipped 1/32 at 99 11/32, yielding 6.012 per cent. The June 30-year bond future slipped 1/32 to [illegible].

After a slightly firmer start, bonds were affected by news that existing home sales rose 0.5 per cent in April to an annual rate of 4.22m. Economists had been predicting a fall, after a jump in March. The rise in mortgage rates, which has accompanied the climb in long-term bond yields, had been expected to bear down on house purchases. As predicted, the index of consumer confidence slipped in May - to 101.2, according to the conference board survey - after the jump in April to a revised 104.8.

This week's Treasury auctions involve the sale of $18.75bn of two-year notes today and $12.5bn of five-year notes on Thursday.

Royal Bank and UBS underwrite Scottish Power bid

By Antonia Sharpe

Royal Bank of Scotland and Union Bank of Switzerland have jointly underwritten a £1.5bn credit facility for Scottish Power, which yesterday made a £1.56bn bid for Southern Water, the water utility covering the English south-east coast.

No further details of the loan were available yesterday but bankers involved in the transaction indicated that sub-underwriting, and syndication, would be a straightforward process because of Scottish Power's "well-defined" group of banks.

Scottish Power last came to the market in 1995 to secure the financing for its £1bn bid for Manweb, the regional electricity utility. Royal Bank of Scotland arranged the £800m facility, which was underwritten by itself, Chemical (now Chase), Den Danske, Rabobank, Sanwa and UBS. The margin on the loan was tied to the company's gearing and ranged from 22 to 18.75 basis points over Libor.

Bankers at rival houses said yesterday it was unclear whether Scottish Power's new facility would reach the market because of the competing interest in Southern Water. BZW is believed to be involved in putting together a facility for Southern Electric, the regional electricity utility.

Given the strong demand among banks to lend to the UK utility industry, whichever suitor wins Southern Water should have little difficulty in syndicating its facility. Yesterday, BZW said the sub-underwriting of the £1.5bn loan to finance the takeover of Midlands Electricity by General Public Utilities and Cinergy Corp of the US met a "tremendous response" from banks.

Elsewhere, the carrot held out to banks by the French treasury - of bond and commercial paper business if they participate in the finely-priced FFr60bn credit facility for Cades, the governmental institution created to manage the accumulated debts of the social security system - has led to the two-tranche facility being significantly over-subscribed only one week after it went into syndication.

SYNDICATED LOANS

Banks arranging the loan were expected to close syndication yesterday. Despite the over-subscription, the size of the loan is unlikely to be increased.

Among other new business in the market, Billiton, the international mining and minerals subsidiary of South Africa's Gencor, has asked Bank of America, BZW, Chase, J.P. Morgan and Union Bank of Switzerland to arrange a $500m revolving credit facility.

The fully-underwritten facility will refinance all Billiton's outstanding debt and redeem exchangeable bonds held by the Shell Petroleum Company, its previous owner.

The facility has a maturity of five years, a margin or letter of credit commission of 55 basis points per annum and a commitment fee of 25 basis points per annum on the available daily undrawn and uncancelled amount of the facility.

Meanwhile, the £800m seven-year facility for National Grid is due to be signed on June 6.

On May 21, Gulf International Bank signed its $250m seven-year facility, which was increased from an initial $200m. The facility represents a new maturity benchmark for non-project financing in the Middle East.

Strong demand shown for French social security debt

By Conner Middelmann

The successful launch of FFr25bn in bonds for Cades, the French government agency set up to manage the accumulated debts of the country's social security system, hogged the limelight in the international primary bond market yesterday, with underwriters reporting heavy demand from French investors and some international buying.

"The best indication of the placement's success is that Société Générale and Caisse des Dépôts et Consignations [the two lead underwriters] bought back less than FFr100m after the bonds were freed to trade," a syndicate official at CDC said.

The bonds were issued in two tranches: FFr14bn of 5.5 per cent six-year bonds and FFr11bn in 6.25 per cent 11-year paper, both yielding 7 basis points over French government bonds. The shorter tranche sold out yesterday, with some 20 to 25 per cent placed outside of France. International buyers included Scandinavian central banks, Asian institutions, Middle Eastern investors and UK and US hedge funds, the official said.

INTERNATIONAL BONDS

Another dealer said that some international investors felt that the longer end of the French yield curve offered no more scope for outperformance of German bunds and preferred to buy the shorter maturity, fearing a correction at the long end.

The 2007 tranche was slower to get off the ground, with French insurance companies - the traditional buyers of long-dated paper - hesitant to commit large sums of money, especially with the French bond future trading at high levels in the morning. "They prefer to spread their buying over several days, which means the paper will get placed, but more slowly," a dealer said. The CDC official said 50 to 60 per cent of the longer tranche was placed yesterday.

Elsewhere, the eurobond market was dominated by US dollar offerings.

Central Hispano Eurocapital, the Spanish bank, issued $450m of undated, floating-rate preference shares paying a coupon of 230 basis points over Libor. A syndicate official at bookrunner Merrill Lynch said the issue tapped into investor demand - especially among retail - for hefty yields.

Toyota Motor Finance issued $350m of three-year bonds via Nomura. Although shorter maturities are usually favoured by retail investors, the bonds were not allowed to be sold to this category of investors under selling restrictions applied to the Dutch Antilles, where the issuer is incorporated. The deal was therefore aimed at institutional investors, Nomura said, although some traders suggested that the five-basis-point yield spread over Treasuries might be too tight for some institutions.

Japan Highway Corporation issued $300m of 10-year bonds, the first Japanese government-guaranteed bond in the current fiscal year. According to bookrunner IBJ, the bonds benefited from the recent dearth of high-quality 10-year paper and their 7 per cent coupon.

Also in the pipeline is Ford Motor Credit's $750m five-year bond, which is due to be launched in Asian trading today, yielding about 46 basis points over Treasuries. Merrill Lynch and Lehman Brothers will be joint leads.

The People's Republic of China is rumoured to be planning a global bond worth $500m to $750m, with CS First Boston and Morgan Stanley tipped as lead managers.

Romania announced its first eurobond, a $150m offering expected in mid-June, after a Y52bn Samurai it issued some weeks ago. Merrill Lynch is advising Romania on the issue.

The country also plans to issue US domestic - or Yankee - bonds later this year. Romania was recently awarded sub-investment grade ratings of BB- by Standard & Poor's and Ba3 by Moody's.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Central Hispano Eurocapital(a)	450	(a1)	100.00	undated	3.15	-	Merrill Lynch International
Toyota Motor Finance(Neths)	350	6.25	99.77R	Jun 1999	0.1875R	-5(6¼%-99)	Nomura International
Japan Highway	300	7.00	99.62R	Jun 2006	0.325R	-30(5⅞%-05)	IBJ International
Swedish Export Credit(b)*‡	200	(b1)	99.98	Jun 1999	0.55	-	Yamaichi Intl (Europe)
Banque Nationale de Paris	175	7.50	99.896R	Jun 2006	0.50R	-75(6⅞%-05)	Lehman/Salomon Brothers
ING Bank	150	7.25	99.207R	Jun 2006	0.50R	-60(6⅞%-05)	PaineWebber Intl(UK)
FRENCH FRANCS							
Cades(c)	14bn	5.50	98.522R	Apr 2002	0.275R	-7(i)	CDC Société Générale
Cades(d)	11bn	6.25	97.451R	Oct 2007	0.35R	-7(i)	CDC Société Générale
LIRE							
World Bank(e)	300bn	6.50	101.12	Jun 1999	1.25	-	BNL Cariplo San Paolo
AUSTRALIAN DOLLARS							
International Finance Corp*	200	7.75	100.00	Jun 1999	1.00	-	DKB Intl Kansai(Europe)

Final terms, non-callable unless stated. Yield spread (over govt bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Preference shares with $25 par value. Callable on coupon dates from June 2001 at par. a1) 3-mth Libor +230bp. b) Puttable on coupon dates at par. b1) 5.10% in 1st yr and 3-mth Libor -30bp thereafter. c) Plus 50 days accrued. d) Plus 233 days accrued. e) Callable on 28/6/97 and 98 at par. i) Over interpolated yield. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.8150	+0.340	8.81	8.76	9.03
Austria		6.125	02/06	97.9400	+0.420	6.41	6.40	6.50
Belgium		7.000	05/06	102.3800	-0.010	6.68	6.66	6.70
Canada *		8.750	12/05	108.0900	-0.640	7.54	7.60	7.75
Denmark		8.000	03/06	104.2400	+0.040	7.37	7.35	7.31
France	BTAN	5.750	03/01	101.0000	-0.130	5.50	5.51	5.70
	OAT	7.250	04/06	105.6800	-0.170	6.45	6.44	6.53
Germany Bund		6.250	04/06	98.7600	-0.100	6.42	6.42	6.45
Ireland		8.000	08/06	102.9700	+0.120	7.56	7.57	7.69
Italy		9.500	02/06	101.2600	+0.370	9.30†	9.36	10.19
Japan	No 140	6.600	06/01	119.4610	-0.010	2.30	2.38	2.39
	No 182	3.000	09/05	98.5671	+0.320	3.20	3.25	3.32
Netherlands		6.000	01/06	97.7600	-	6.31	6.30	6.39
Portugal		11.875	02/05	117.7400	+0.290	8.85	8.91	9.04
Spain		8.800	04/06	98.3900	+0.250	9.03	9.12	9.17
Sweden		6.000	02/05	85.5030	+0.220	8.41	8.35	8.37
UK Gilts		8.000	12/00	102-09	+1/32	7.39	7.40	7.50
		7.500	12/06	96-06	+1/32	8.04	8.03	8.07
		9.000	10/08	106-13	-6/32	8.18	8.12	8.16
US Treasury *		6.875	05/06	101-19	+1/32	6.65	6.62	6.57
		6.000	02/26	89-10	-1/32	6.85	6.82	6.84
ECU (French Govt)		7.500	04/05	104.0900	+0.030	6.87	6.87	6.93

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	6.01
Broker loan rate	7	Two month	-	Three year	6.27
Fed.funds	5¼	Three month	5.17	Five year	6.41
Fed.funds at intervention	-	Six month	5.32	10-year	6.68
		One year	5.62	30-year	6.84

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	123.88	123.72	-0.04	124.10	123.70	87,185	157,972
Sep	122.28	122.20	-0.04	122.54	122.20	4,209	17,413
Dec	121.18	120.98	-0.06	121.30	121.04	818	8,601

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	Jul	Sep	PUTS Jun	Jul	Sep
120	3.72	-	-	-	0.10	0.45
121	-	-	-	-	0.23	0.70
122	1.72	-	1.28	0.01	0.53	1.09
123	0.80	0.31	0.84	0.03	1.09	-
124	0.09	0.10	0.49	0.30	-	-

Est. vol. total, Calls 21,072 Puts 13,403. Previous day's open int., Calls 156,959 Puts 191,823.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.07	96.93	-0.05	97.15	96.89	63818	134357
Sep	96.20	96.08	-0.04	96.25	96.03	11210	81393

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
9600	0.52	0.81	1.01	1.02	0.46	0.75	0.95	1.81
9650	0.28	0.56	0.76	0.83	0.72	1.00	1.20	2.12
9700	0.13	0.37	0.55	0.67	1.07	1.31	1.49	2.46

Est. vol. total, Calls 10971 Puts 8004. Previous day's open int., Calls 100518 Puts 97080

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	115.90	116.21	+0.56	116.46	115.90	38878	51790
Sep	115.33	115.58	+0.54	115.81	115.33	2420	9240

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	Dec	PUTS Sep	Dec
11550	1.76	2.25	1.68	2.80
11600	1.52	2.03	1.94	3.08
11650	1.30	1.83	2.22	3.38

Est. vol. total, Calls 7092 Puts 1055. Previous day's open int., Calls 24404 Puts 22725

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	99.65	99.67	-	99.92	99.55	51,176	52,018
Sep	99.30	99.13	-	99.30	99.26	12	1,648

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-14	106-11	-	106-19	106-09	37731	83326
Sep	105-15	105-13	+0-01	105-18	105-11	16636	51567

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	Aug	Sep	Dec	PUTS Jul	Aug	Sep	Dec
105	1-01	1-26	1-45	2-01	0-38	1-00	1-19	2-39
106	0-33	0-59	1-13	1-38	1-07	1-33	1-51	3-12
107	0-14	0-37	0-51	1-16	1-52	2-11	2-25	3-54

Est. vol. total, Calls 1620 Puts 2872. Previous day's open int., Calls 11121 Puts 14069

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.60	91.44	-0.02	91.70	91.48	1,326	7,010
Sep	91.04	90.98	-0.04	91.04	91.02	130	870

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	110-01	110-10	+0-10	110-04	109-13	190,301	315,706
Sep	109-18	109-25	-0-10	109-19	108-28	13,127	106,318
Dec	109-04	109-05	-0-07	109-00	108-12	482	7,406

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	119.75			119.77	119.65	523	0
Sep	118.65			118.69	118.56	2117	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue May 28	Day's change %	Fri May 24	Accrued interest	xd adj. ytd		Low coupon yield May 28	May 24	Yr. ago	Medium coupon yield May 28	May 24	Yr. ago	High coupon yield May 28	May 24	Yr. ago
1 Up to 5 years (22)	121.64	0.06	121.57	2.48	3.78	5 yrs	7.48	7.50	7.71	7.52	7.55	7.73	7.82	7.64	7.80
2 5-15 years (19)	145.64	0.12	145.67	2.88	4.09	15 yrs	8.23	8.22	7.93	8.24	8.24	7.94	8.33	8.33	8.07
3 Over 15 years (9)	160.91	0.02	160.88	4.27	3.48	20 yrs	8.31	8.30	7.93	8.31	8.31	7.94	8.37	8.37	8.05
4 Irredeemables (6)	180.02	-0.34	180.63	1.10	8.12	Irred.†	8.36	8.33	7.96						
5 All stocks (56)	141.39	0.08	141.28	2.99	3.92										

Index-linked							Inflation 5% May 28	May 24	Yr. ago	Inflation 10% May 28	May 24	Yr. ago
6 Up to 5 years (1)	196.53	0.06	196.42	0.78	4.43	Up to 5 yrs	2.83	2.85	3.12	1.38	1.38	1.57
7 Over 5 years (11)	186.13	0.04	186.06	1.25	1.81	Over 5 yrs	3.81	3.82	3.54	3.60	3.60	3.35
8 All stocks (12)	186.24	0.04	186.17	1.24	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	May 28	May 24	May 23	May 22	May 21	Yr ago	High*	Low*
Govt. Secs. (UK)	92.26	92.36	92.35	92.29	92.65	94.39	96.34	91.59
Fixed interest	111.86	111.91	112.09	112.10	112.20	113.59	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 24	May 23	May 22	May 21	May 20
Gilt Edged bargains	87.9	86.0	92.7	128.1	97.8
5-day average	97.3	96.5	98.2	103.5	92.2

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 28

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 00	1000	97⅛	97½	+⅛	7.01
ABN Amro Bank 7¼ 05	1000	100⅜	100⅝		7.32
Alcan Dev Bk 7⅛ 23	500	96⅝	97⅛	+⅛	7.67
Alberta Province 7⅝ 98	1000	102¾	102⅞		6.35
[illegible]					
Sweden 8 97	2500	105¾	105⅞		3.78
United Kingdom 7¼ 97	5500	104⅜	104⅝		3.69
Volkswagen Intl Fin 7 03	1000	103	103½		6.45
World Bank 0 15	2000	30	30		6.35
World Bank 5⅞ 03	3000	99⅝	99¾		5.93
[illegible]					
Abbey Natl Treasury 8 03 £	1000	99⅛	99⅝	+⅛	8.16
British Land 8⅞ 23 £	150	89	89½	-¼	10.31
Denmark 6¾ 98 £	800	99½	99¾		6.88
Depfa Finance 7⅛ 03 £	500	93⅞	94⅛	+⅛	8.24
[illegible]					

UK GILTS PRICES

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Dollar returns from vacation with renewed vigour

By Philip Gawith

The dollar yesterday rallied to fresh highs against the D-Mark, Swiss franc and yen, helped by a combination of political developments in Korea and optimism about lower German interest rates.

Reports of a troop build up by North Korea on its border with South Korea boosted the dollar during Asian trading and this move gained momentum in Europe following comments from Mr Hans-Dieter Kuhbacher, a Bundesbank council member.

The dollar closed in London at DM1.5483, from DM1.5414. Against the yen it finished at Y108.625, from Y107.675. Apart from a brief interlude about six weeks ago, this was the highest level reached by the dollar since early 1994.

In Europe the lira was the big gainer, reaching a 21 month high against the D-Mark. It rallied to close in London at L1,006, from L1,012 last Friday.

Sterling continued to benefit from the firmer dollar. The trade weighted index reached a fresh high of 85.1, from 84.9. Against the D-Mark it finished at DM2.3415, from DM2.3319. Against the dollar it closed at $1.5124, from $1.5129.

■ The comments from Mr Kuhbacher, provided impetus to the dollar during European trading. He lent support to the view that the Bundesbank might soon move towards a variable rate repo, which would almost certainly involve German rates moving lower.

His comments, notwithstanding his relatively low profile on the Bundesbank, further bolstered the dollar by appearing to suggest that there would be room for flexibility in the interpretation of the Maastricht convergence criteria. Mr Jeremy Hawkins, chief economist at the Bank of America in London, said: "If the Bundesbank can even hint at flexibility, that is pretty negative as far as the D-Mark is concerned."

He said it provided a reason for the market to continue buying "high-yielding" European currencies and to pursue convergence trades.

■ The latest global survey of fund managers by Merrill Lynch confirms that one of the main obstacles facing the dollar is the position of the market. Mr Mike Rosenberg, head of fixed income and currency research, said: "There is too steep a hill of overweight dollar positions to generate a major advance."

The key finding of the survey (of 90 fund managers across the US, Europe and Asia) is that the sample group has increased its exposure to the dollar to the highest level since February 1993.

Mr Rosenberg said that in his view this did not represent an extreme reading of the sort which heralded an imminent reversal. "The fact that the dollar continues to move to new cyclical highs versus the D-Mark despite the market's overweight position in dollars is evidence that the fundamentals are extremely positive for the dollar or extremely negative for the D-Mark."

The survey bears this out: from a heavily overweight reading of 65.5 (50 is neutral) last November, the market's D-Mark exposure has slumped to 44, the lowest in two years. "This two quarter decline is one of the steepest drops in investor positioning for any currency or bond market that we have recorded since the survey began some seven years ago."

Exposure to core European currencies (such as the French franc and the Belgian franc) has also fallen dramatically. "The reason that these currencies have moved out of favour is that they no longer are undervalued relative to the D-Mark on a purchasing power parity basis." Yield spreads between these currencies and bunds have also narrowed virtually to nil.

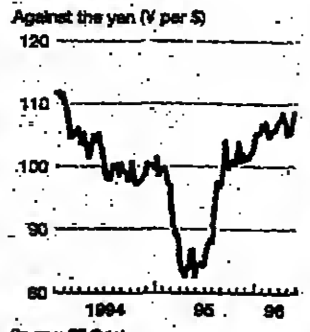
The corollary of this is that investors have raised their exposure to high-yielding European currencies, to 52, from 43.75 in February. This is the highest reading for these currencies since the first half of 1992 when the old narrow ERM band was in place.

It is probably no coincidence that this positive reading has coincided with the recent return of all ERM currencies to trading within their old, 2¼ per cent narrow bands.

■ Mr Brian Marber, a London based technical analyst, believes that sterling is set to rally sharply against the D-Mark. He says that the close above DM2.3390 represents a "double bottom" – a signal that the rate will go to DM2.45. His own forecast is for DM2.50.

Dollar

Against the yen (Y per $)



Source: FT Extel

■ **Pound in New York**

May 28	Latest	Prev. close
£ spot	1.5125	1.5120
1 mth	1.5117	1.5112
3 mth	1.5102	1.5098
1 yr	1.5052	1.5050

■ **OTHER CURRENCIES**

May 28	£	$
Czech Rp	42.3537 - 42.3939	27.9540 - 27.9640
Hungary	226.861 - 227.147	150.050 - 150.150
Iran	4538.40 - 4535.70	3000.00 - 3000.00
Kuwait	0.4537 - 0.4541	0.3001 - 0.3002
Poland	4.0825 - 4.0856	2.7042 - 2.7072
Russia	7594.27 - 7603.53	5023.00 - 5026.00
U.A.E.	5.5525 - 5.5565	3.6725 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

May 28		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.4748	+0.0657	667 - 829	16.4852	16.4163	16.4435	2.3	16.3695	2.6	-	-	104.7
Belgium	(BFr)	48.1230	+0.1606	835 - 624	48.1525	47.9240	48.018	2.6	47.808	2.6	46.788	2.8	108.4
Denmark	(DKr)	8.9415	+0.0378	386 - 465	9.0469	9.0093	9.0362	2.0	8.9934	2.1	8.8501	2.1	107.1
Finland	(FM)	7.2084	+0.0093	009 - 158	7.2200	7.1780	7.204	0.7	7.1959	0.7	-	-	82.8
France	(FFr)	7.9195	+0.0282	162 - 228	7.9245	7.8808	7.9054	2.1	7.8775	2.1	7.7446	2.2	108.8
Germany	(DM)	2.3415	+0.0095	404 - 426	2.3429	2.3328	2.3365	2.5	2.3261	2.8	2.2757	2.8	107.8
Greece	(Dr)	369.588	+0.792	327 - 880	369.885	368.388	-	-	-	-	-	-	67.4
Ireland	(I£)	0.9707	+0.0013	698 - 718	0.9716	0.9688	0.9699	1.0	0.9686	0.6	0.9616	0.9	98.9
Italy	(L)	2356.54	-3.15	509 - 800	2359.54	2350.24	2364.79	-4.2	2379.89	-4.0	2432.99	-3.2	76.7
Luxembourg	(LFr)	48.1230	+0.1606	835 - 624	48.1525	47.9240	48.018	2.6	47.808	2.6	46.888	2.8	108.4
Netherlands	(Fl)	2.6186	+0.0102	173 - 199	2.6202	2.6095	2.6122	2.9	2.5995	2.9	2.5404	3.0	105.6
Norway	(NKr)	10.0122	+0.0333	059 - 205	10.0508	9.9827	10.0032	1.1	9.9841	1.1	9.8884	1.2	98.5
Portugal	(Es)	240.184	+0.541	076 - 293	240.325	238.100	240.609	-2.1	241.514	-2.2	-	-	94.7
Spain	(Pta)	194.791	+0.518	687 - 894	194.782	194.258	195.101	-1.9	195.506	-1.7	197.251	-1.3	81.3
Sweden	(SKr)	10.3196	-0.0115	104 - 294	10.3500	10.3086	10.3226	-0.1	10.3226	-0.1	10.3205	0.0	88.1
Switzerland	(SFr)	1.9271	+0.0135	260 - 282	1.9282	1.9142	1.9209	3.3	1.9081	3.4	1.8604	4.0	110.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	95.1
Ecu	-	1.2379	+0.0047	372 - 385	1.2395	1.2344	1.2369	1.3	1.2336	1.4	1.2203	1.4	-
SDR†	-	1.05185	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5115	-0.0003	110 - 120	1.5134	1.5096	-	-	-	-	-	-	-
Brazil	(R$)	1.5083	-0.0014	056 - 089	1.5102	1.5044	-	-	-	-	-	-	-
Canada	(C$)	2.0808	+0.0013	798 - 818	2.0816	2.0750	2.0801	0.4	2.0764	0.6	2.0684	0.8	83.9
Mexico	(New Peso)	11.1589	-0.043	518 - 660	11.2681	11.1434	-	-	-	-	-	-	-
USA	($)	1.5124	-0.0005	118 - 128	1.5136	1.5100	1.5118	0.8	1.5101	0.6	1.5054	0.5	97.9
Pacific/Middle East/Africa													
Australia	(A$)	1.9034	-0.0084	022 - 046	1.9115	1.9013	1.906	-1.6	1.911	-1.6	1.9393	-1.7	94.4
Hong Kong	(HK$)	11.7015	-0.0016	979 - 053	11.7116	11.6898	11.6894	0.8	11.6818	0.7	11.662	0.3	-
India	(Rs)	53.1818	+0.0806	433 - 203	53.2230	52.6393	-	-	-	-	-	-	-
Israel	(Shk)	4.9770	+0.0281	722 - 817	4.9825	4.9549	-	-	-	-	-	-	-
Japan	(Y)	164.279	+1.383	162 - 396	164.450	163.210	163.554	5.3	162.064	5.4	155.849	5.3	135.8
Malaysia	(M$)	3.7758	+0.0066	740 - 776	3.7782	3.7652	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2077	-0.0036	052 - 101	2.2130	2.2020	2.2127	-2.7	2.2222	-2.6	2.256	-2.2	108.2
Philippines	(Peso)	39.5933	+0.002	059 - 807	39.7073	39.5020	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6720	-0.0018	701 - 739	5.6765	5.6634	-	-	-	-	-	-	-
Singapore	(S$)	2.1370	+0.0034	356 - 383	2.1385	2.1338	-	-	-	-	-	-	-
South Africa	(R)	6.6468	+0.047	372 - 563	6.6570	6.6070	-	-	-	-	-	-	-
South Korea	(Won)	1189.84	+7.47	941 - 027	1190.28	1184.14	-	-	-	-	-	-	-
Taiwan	(T$)	42.1961	+0.7039	899 - 222	42.2843	41.8221	-	-	-	-	-	-	-
Thailand	(Bt)	38.3419	+0.0214	267 - 570	38.3580	38.2940	-	-	-	-	-	-	-

† Rates for May 24. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 28		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8935	+0.0477	914 - 956	10.8960	10.8430	10.874	2.1	10.832	2.3	10.6455	2.2	104.6
Belgium	(BFr)	31.8200	+0.1365	100 - 300	31.8370	31.6850	31.765	2.1	31.65	2.1	31.11	2.2	106.2
Denmark	(DKr)	5.8785	+0.027	770 - 800	5.9805	5.9500	5.971	1.5	5.954	1.6	5.885	1.6	105.5
Finland	(FM)	4.7663	+0.0077	628 - 698	4.7702	4.7518	4.7598	1.8	4.7478	1.6	4.7023	1.3	82.1
France	(FFr)	5.2386	+0.0204	359 - 372	5.2395	5.2125	5.2297	1.8	5.2154	1.6	5.1476	1.7	108.3
Germany	(DM)	1.5483	+0.0089	480 - 485	1.5487	1.5410	1.5458	1.9	1.54	2.1	1.5118	2.4	107.4
Greece	(Dr)	244.380	+0.545	260 - 500	244.590	243.410	246.055	-8.2	249.405	-8.2	263.38	-7.8	66.7
Ireland	(I£)	1.5580	-0.0028	570 - 590	1.5620	1.5562	1.5586	-0.4	1.5595	-0.4	1.551	0.5	-
Italy	(L)	1558.20	-1.55	770 - 870	1561.24	1554.70	1564.25	-4.7	1575.8	-4.5	1618.7	-3.8	75.8
Luxembourg	(LFr)	31.8200	+0.1365	100 - 300	31.8370	31.6850	31.767	2.0	31.6605	2.0	31.18	2.0	108.2
Netherlands	(Fl)	1.7315	+0.0073	311 - 318	1.7325	1.7238	1.7282	2.3	1.721	2.4	1.6893	2.4	108.2
Norway	(NKr)	6.6203	+0.0242	168 - 238	6.6500	6.5921	6.6174	0.5	6.6118	0.5	6.5753	0.7	97.7
Portugal	(Es)	158.815	+0.41	790 - 840	158.840	158.450	159.13	-2.4	159.72	-2.3	161.865	-1.9	94.8
Spain	(Pta)	128.800	+0.385	770 - 830	128.880	128.410	129.05	-2.3	129.48	-2.1	131.02	-1.7	80.9
Sweden	(SKr)	6.8238	-0.0053	195 - 280	6.8484	6.8169	6.8349	-1.8	6.8523	-1.7	6.8943	-1.0	88.2
Switzerland	(SFr)	1.2743	+0.0094	739 - 748	1.2750	1.2645	1.2708	3.3	1.2633	3.5	1.2298	3.5	110.2
UK	(£)	1.5124	-0.0005	119 - 128	1.5136	1.5100	1.5118	0.8	1.5101	0.6	1.5054	0.5	84.3
Ecu	-	1.2218	-0.005	215 - 220	1.2250	1.2210	1.2226	-0.7	1.2242	-0.8	1.233	-0.9	-
SDR†	-	0.69486	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	+0.0002	994 - 995	0.9969	0.9994	-	-	-	-	-	-	-
Brazil	(R$)	0.9960	-0.0006	958 - 961	0.9985	0.9957	-	-	-	-	-	-	-
Canada	(C$)	1.3759	+0.0013	756 - 761	1.3762	1.3728	1.3757	0.1	1.376	0.0	1.3788	-0.2	83.3
Mexico	(New Peso)	7.3785	-0.026	760 - 810	7.3850	7.3750	7.54	-26.3	7.725	-18.8	9.4885	-28.6	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.4
Pacific/Middle East/Africa													
Australia	(A$)	1.2585	-0.0051	582 - 590	1.2629	1.2580	1.2605	-1.9	1.264	-1.7	1.2827	-1.9	95.4
Hong Kong	(HK$)	7.7373	+0.0016	370 - 375	7.7375	7.7368	7.738	-0.1	7.7398	-0.1	7.7698	+0.4	-
India	(Rs)	35.1850	+0.095	500 - 800	35.1800	35.0010	35.315	-5.1	35.62	-5.2	37.09	-5.5	-
Israel	(Shk)	3.2908	+0.0199	887 - 930	3.2935	3.2724	-	-	-	-	-	-	-
Japan	(Y)	108.625	+0.85	580 - 670	108.750	107.800	108.16	4.9	107.28	5.0	103.54	4.7	136.9
Malaysia	(M$)	2.4967	+0.0065	962 - 972	2.4972	2.4914	2.4978	+0.4	2.5037	-1.1	2.5272	-1.2	-
New Zealand	(NZ$)	1.4596	-0.002	592 - 603	1.4621	1.4590	1.4627	-2.5	1.4685	-2.4	1.4931	-2.3	-
Philippines	(Peso)	26.1800	+0.01	300 - 300	26.2300	26.1300	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 506	3.7508	3.7503	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4130	+0.0027	125 - 135	1.4135	1.4113	1.4095	3.0	1.4035	2.7	1.378	2.5	-
South Africa	(R)	4.3950	+0.0325	900 - 000	4.4000	4.3750	4.4425	-13.0	4.5325	-12.5	4.87	-10.8	-
South Korea	(Won)	786.750	+5.2	700 - 800	787.100	783.500	-	-	-	-	-	-	-
Taiwan	(T$)	27.9010	+0.4745	920 - 100	27.9600	27.7100	27.908	-0.2	27.911	-0.1	-	-	-
Thailand	(Bt)	25.3525	+0.0225	500 - 550	25.3550	25.3430	25.4612	-4.7	25.655	-4.6	26.5375	-4.7	-

† SDR rate per $ for May 24. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 23: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

May 28	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3⅜	3¼	3⅜	3⅜	7.00	2.50	-
week ago	3⅜	3¼	3¼	3⅜	3⅛	7.00	2.50	-
France	3⅞	3⅞	3⅞	3⅞	4⅛	3.70	-	5.60
week ago	3⅞	3⅞	3⅞	3⅞	4⅛	3.70	-	5.60
Germany	3¼	3⅜	3⅜	3¼	3⅜	4.50	2.50	3.30
week ago	3⅜	3¼	3¼	3⅜	3⅜	4.50	2.50	3.30
Ireland	5¼	5¼	5⅛	5⅜	5⅜	-	-	6.25
week ago	5¼	5¼	5¼	5⅜	5⅝	-	-	6.25
Italy	9⅜	9¼	8⅞	8⅞	8⅞	-	8.00	8.25
week ago	9¼	9⅛	8⅞	8⅞	8⅞	-	8.00	9.25
Netherlands	2⅞	2⅞	2⅞	2⅞	2⅞	-	3.00	3.30
week ago	2⅞	2⅞	2⅞	2⅞	2⅞	-	3.00	3.30
Switzerland	2⅛	2½	2⅛	2¼	2⅜	5.00	1.50	-
week ago	2½	2½	2⅛	2⅛	2⅜	5.00	1.50	-
US	5⅛	5⅜	5⅜	5⅝	5⅞	-	5.00	-
week ago	5⅛	5⅜	5⅜	5½	5⅞	-	5.00	-
Japan	½	½	½	½	⅝	-	0.50	-
week ago	½	½	½	½	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅜	5½	5⅝	5⅞	-	-	-
week ago	-	5⅜	5½	5⅝	5⅞	-	-	-
US Dollar CDs	-	5.01	5.03	5.20	5.55	-	-	-
week ago	-	5.01	5.09	5.25	5.57	-	-	-
ECU Linked Ds	-	4⅜	4⅜	4⅜	4⅜	-	-	-
week ago	-	4⅜	4⅜	4⅜	4⅝	-	-	-
SDR Linked Ds	-	3⅜	3⅜	3⅝	3⅝	-	-	-
week ago	-	3⅜	3⅜	3⅝	3⅝	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 28	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 5/16 - 3 7/32	2⅝ - 2 7/16	3 5/16 - 3 3/16	3 5/16 - 3 3/16	3 11/32 - 3 5/32	3 13/32 - 3 9/32
Danish Krone	3 15/32 - 3 13/32	3 15/32 - 3 13/32	3 13/32 - 3 13/32	3 15/32 - 3 13/32	4 1/16 - 3 7/8	4 3/16 - 4
D-Mark	3 7/16 - 3 5/16	3 7/16 - 3 5/16	3 5/16 - 3 3/16	3 7/16 - 3 5/16	3 13/32 - 3 9/32	3⅜ - 3¼
Dutch Guilder	2¾ - 2⅝	2 31/32 - 2 29/32	2 31/32 - 2 29/32	2 31/32 - 2 29/32	2 31/32 - 2 29/32	2 31/32 - 2 29/32
French Franc	3 13/16 - 3 11/16	3 31/32 - 3 29/32	3 13/16 - 3¾	3 29/32 - 3 13/16	3 31/32 - 3 27/32	4 1/16 - 3 15/16
Portuguese Esc.	6 29/32 - 6 13/16	7 3/32 - 7 1/32	7 3/16 - 7 1/16	7 3/16 - 7 1/16	7 1/16 - 7 3/32	7 3/16 - 7 1/16
Spanish Peseta	7 29/32 - 7 13/16	7⅝ - 7 13/16	7 11/16 - 7 9/16	7½ - 7⅜	7 7/16 - 7 5/16	7½ - 7⅜
Sterling	6 - 5⅞	6 - 5⅞	6 - 5 15/16	6 1/16 - 6	6⅛ - 6 1/16	6⅜ - 6 3/16
Swiss Franc	2 7/16 - 2 5/16	2 5/16 - 2 3/16	2 5/16 - 2 3/16	2 5/16 - 2 3/16	2 5/16 - 2 3/16	2 7/16 - 2 5/16
Can. Dollar	4 11/16 - 4⅝	4¾ - 4 5/16	4 13/16 - 4½	4 11/16 - 4 9/16	4 13/16 - 4 11/16	5 5/16 - 5 3/16
US Dollar	5¼ - 5⅛	5 5/16 - 5 3/16	5⅜ - 5 5/16	5 7/16 - 5¼	5 9/16 - 5⅜	5⅞ - 5 11/16
Italian Lira	9¼ - 9	9⅜ - 9⅛	9⅛ - 9 1/16	8⅞ - 8¾	8⅝ - 8 7/16	8 7/16 - 8 5/16
Yen	½ - ⅜	7/16 - 11/32	7/16 - 11/32	⅝ - ½	25/32 - 19/32	31/32 - 27/32
Asian $Sing	2⅝ - 2½	2 7/16 - 2 5/16	2 7/16 - 2 5/16	2 7/16 - 2 5/16	2 7/16 - 2 5/16	2 11/16 - 2 9/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.04	96.05	+0.03	96.07	96.03	11,356	50,095
Sep	96.05	96.07	+0.03	96.10	96.06	6,004	54,948
Dec	95.93	95.95	+0.02	95.98	95.93	2,097	31,430

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.73	96.72	-0.01	96.73	96.72	7403	174465
Sep	96.78	96.78	-0.01	96.79	96.76	12978	242438
Dec	96.61	96.59	-0.01	96.62	96.58	10885	204682
Mar	96.32	96.31	-0.01	96.35	96.31	7907	161644

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.33	91.31	+0.04	91.36	91.30	5998	48982
Sep	91.96	91.98	+0.06	92.00	91.93	7706	41093
Dec	92.21	92.24	+0.06	92.27	92.21	4421	29627
Mar	92.24	92.25	+0.06	92.28	92.23	1173	11100

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.73	97.65	-0.13	97.75	97.64	3796	20113
Sep	97.72	97.58	-0.14	97.72	97.58	8938	32170
Dec	97.48	97.38	-0.14	97.51	97.37	1954	11820
Mar	97.23	97.11	-0.14	97.23	97.12	218	6000

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.39	99.39	+0.04	99.39	99.39	700	0
Sep	99.20	99.20	+0.08	99.21	99.18	115	0
Dec	98.93	98.93	+0.11	98.93	98.92	1048	0

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.86	95.85	+0	95.86	95.95	388	9909
Sep	95.74	95.73	+0	95.74	95.72	269	4682
Dec	95.63	95.62	+0	95.64	95.62	255	3660
Mar	95.42	95.41	-0.01	95.43	95.41	59	2331

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 28		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.79	16.46	4.867	2.018	4898	5.443	20.80	499.2	404.8	21.45	4.005	2.078	4.325	3.142	341.4	2.573
Denmark	(DKr)	53.22	10	8.759	2.590	1.074	2607	2.896	11.07	265.6	215.4	11.41	2.131	1.106	2.301	1.672	181.7	1.369
France	(FFr)	60.76	11.42	10	2.957	1.226	2976	3.307	12.64	303.3	246.0	13.03	2.433	1.263	2.628	1.909	207.4	1.563
Germany	(DM)	20.55	3.861	3.382	1	0.415	1006	1.118	4.274	102.6	83.18	4.406	0.823	0.427	0.889	0.646	70.15	0.529
Ireland	(I£)	49.56	9.312	8.157	2.412	1	2427	2.697	10.31	247.4	200.6	10.63	1.985	1.030	2.143	1.557	169.2	1.275
Italy	(L)	2.042	0.384	0.336	0.099	0.041	100.	0.111	0.425	10.18	8.265	0.438	0.082	0.042	0.088	0.064	6.971	0.053
Netherlands	(Fl)	18.37	3.452	3.024	0.894	0.371	900.0	1	3.822	91.71	74.38	3.940	0.736	0.382	0.795	0.577	62.73	0.473
Norway	(NKr)	48.07	9.033	7.912	2.340	0.970	2355	2.616	10	240.0	194.6	10.31	1.925	0.999	2.079	1.510	164.1	1.237
Portugal	(Es)	20.03	3.764	3.297	0.975	0.404	981.3	1.090	4.167	100.	81.10	4.296	0.802	0.416	0.866	0.629	68.40	0.515
Spain	(Pta)	24.70	4.642	4.066	1.202	0.498	1210	1.344	5.139	123.3	100.	5.298	0.989	0.513	1.068	0.776	84.34	0.635
Sweden	(SKr)	46.63	8.762	7.674	2.269	0.941	2284	2.538	9.700	232.8	188.8	10	1.867	0.969	2.016	1.465	159.2	1.200
Switzerland	(SFr)	24.97	4.692	4.110	1.215	0.504	1223	1.359	5.195	124.6	101.1	5.355	1	0.518	1.080	0.785	85.26	0.642
UK	(£)	48.12	9.042	7.920	2.342	0.971	2357	2.618	10.01	240.2	194.8	10.32	1.927	1	2.081	1.512	164.3	1.238
Canada	(C$)	23.12	4.345	3.806	1.125	0.467	1133	1.258	4.810	115.4	93.61	4.959	0.926	0.481	1	0.727	78.95	0.595
US	($)	31.83	5.980	5.236	1.548	0.642	1559	1.732	6.620	158.9	128.8	6.825	1.274	0.661	1.376	1	108.7	0.818
Japan	(Y)	29.29	5.503	4.820	1.425	0.591	1435	1.594	6.093	146.2	118.6	6.281	1.173	0.609	1.267	0.920	100.	0.753
Ecu		38.87	7.304	6.397	1.892	0.784	1904	2.116	8.088	194.0	157.4	8.338	1.557	0.808	1.681	1.221	132.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6493	0.6469	-0.0013	0.6471	0.6463	11,533	82,710
Sep	0.6510	0.6502	-0.0015	0.6505	0.6499	478	5,065
Dec	0.6547	0.6539	-0.0018	0.6547	0.6539	2	1,528

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7920	0.7867	-0.0038	0.7878	0.7861	7,644	44,043
Sep	0.7933	0.7931	-0.0037	0.7938	0.7924	272	3,528
Dec	0.7995	0.7995	-0.0039	0.7995	0.7985	7	804

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9293	0.9227	-0.0067	0.9232	0.9220	18,906	71,186
Sep	0.9409	0.9335	+0.0074	0.9345	0.9335	889	3,805
Dec	0.9455	0.9455	-0.0069	0.9455	0.9455	12	2,888

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5124	1.5118	+0.0020	1.5118	1.5084	7,975	50,865
Sep	1.5060	1.5080	+0.0012	1.5090	1.5070	132	772
Dec	-	1.5070	-	-	1.5070	8	48

UK INTEREST RATES

LONDON MONEY RATES

May 28	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 1/16 - 5	6 - 5⅞	6 - 5⅞	6⅛ - 6	6 3/16 - 6 1/16	6 7/16 - 6 5/16
Sterling CDs	-	-	6 - 5 15/16	6 1/32 - 5 31/32	6 3/32 - 6 1/32	6 5/16 - 6¼
Treasury Bills	-	-	5 29/32 - 5⅞	5 27/32 - 5 25/32	-	-
Bank Bills	-	-	5 31/32 - 5⅞	5⅞ - 5 13/16	5⅞ - 5 13/16	-
Local authority deps.	5 15/16 - 5 13/16	5 15/16 - 5 13/16	6 - 5⅞	6 1/16 - 5 15/16	6 3/16 - 5 15/16	6 3/16 - 6 1/16
Discount Market deps	6 - 5½	6 - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on May 17, 5.8155pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1996. Agreed rate for period May 26, 1996 to Jun 25, 1996, Schemes II & III 7.33pc. Reference rate for period Mar 30, 1996 to Apr 30, 1996, Schemes IV & V 6.079pc. Finance House Base Rate 6.5pc from May 1, 1996

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.90	93.90	-	93.91	93.90	3774	68126
Sep	93.85	93.84	-	93.86	93.81	4029	60783
Dec	93.63	93.62	-0.01	93.66	93.61	4613	69430
Mar	93.32	93.31	-	93.36	93.30	3154	48402
Jun	92.95	92.92	-	92.97	92.92	1079	37285

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9375	0.16	0.16	0.16	0.01	0.10	0.32
9400	0.02	0.06	0.10	0.12	0.22	0.48
9425	0	0.02	0.05	0.35	0.43	0.68

Est. vol. total, Calls 1905 Puts 935. Previous day's open int., Calls 153896 Puts 124613

EMS EUROPEAN CURRENCY UNIT RATES

May 28	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.370	-0.011	-1.92	3.49	13
Netherlands	2.15214	2.14195	+0.00147	-0.48	1.98	4
Belgium	39.3960	39.3588	-0.0678	-0.10	1.60	1
Germany	1.91007	1.91487	+0.00147	0.25	1.24	-2
Austria	13.4383	13.4729	+0.0091	0.26	1.24	-2
Ireland	0.792214	0.794830	+0.000595	0.30	1.19	-2
Portugal	195.792	196.425	+0.04	0.32	1.17	-2
France	6.40608	6.47532	+0.0008	1.08	0.41	-8
Denmark	7.28580	7.39488	+0.00534	1.50	0.00	-10
NON ERM MEMBERS						
Greece	292.867	302.305	-0.553	3.22	-1.67	-
Italy	2106.15	1926.00	-7.8	-8.46	10.86	-
UK	0.786652	0.819030	-0.000572	4.12	-2.52	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.490	1.93	2.21	2.55	0.03	0.28	0.55
1.500	1.12	1.53	1.98	0.23	0.70	1.21
1.510	0.52	0.98	1.48	0.62	1.15	1.70
1.520	0.17	0.58	1.04	1.27	1.74	2.27
1.530	0.06	0.30	0.71	2.10	2.48	2.88

Previous day's vol., Calls 17,193 Puts 1,891 . Prev. day's open int., Calls 179,258 Puts 180,350

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.51	94.51	-	94.52	94.50	36,372	381,958
Sep	94.34	94.35	+0.02	94.36	94.33	62,258	392,408
Dec	94.06	94.07	+0.01	94.09	94.07	50,976	364,622

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.98	94.97	+0.01	94.99	94.97	41	8,819
Sep	94.82	94.83	-	94.83	94.82	32	5,278
Dec	-	94.63	+0.02	94.61	94.59	52	1,231

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9650	0.23	0.28	0.30	0.31	0.01	0.02	0.04	0.05
9675	0.03	0.10	0.11	0.13	0.06	0.08	0.10	0.09
9700	0	0.02	0.04	0.04	0.28	0.26	0.27	0.28

Est. vol. total, Calls 1604 Puts 10816. Previous day's open int., Calls 260977 Puts 262307

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9775	0.04	0.06	0.13	0.14	0.25	0.50
9800	0.01	0.02	0.05	0.36	0.45	0.58

Est. vol. total, Calls 825 Puts 1125. Previous day's open int., Calls 7540 Puts 3947

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9125	0.13	0.78	1.08	0.07	0.07	0.10
9150	0.04	0.58	0.88	0.23	0.12	0.14
9175	0.01	0.39	0.69	0.45	0.21	0.20

Est. vol. total, Calls 1984 Puts 1225. Previous day's open int., Calls 43353 Puts 26694

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	•Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	•Smith & Williman Secs	6.00
•Henry Ansbacher	6.00	•Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	•Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of India	6.00	•Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of Ireland	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	•Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00	• Members of London Investment Banking Association	
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00	* In administration	
•Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	•Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		•Rea Brothers	6.00		

LEGAL NOTICES
IN THE MATTER OF Bealton Campus Five Plc Bealton Campus Seven Plc AND IN THE MATTER OF THE INSOLVENCY ACT AND RULES 1986

Bank of South Australia Limited
US$300,000,000
Floating rate notes due 1999
The notes will bear interest at 5.63828% per annum for the interest period from 28 May 1996 to 28 August 1996. Interest payable on 28 August 1996 will amount to US$149.20 per US$10,000 note.
Agent: Morgan Guaranty Trust Company
JPMorgan

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or –	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		486xd	+1	506	476½	5,061	6.1	10.4
Bulmer (HP)		580	-9	625	437	306.2	2.7	18.2
Burn St Dist		115	—	149	101	88.2	5.4	24.8
Glenmorangie A		645	+10	680	600	68.4	2.4	Φ
Grand Met		441	+6	467	374	9,252	4.4	18.5
Guinness		478	-1	536	435	9,052	4.0	15.3
Highland		372xd	—	496	315	485.9	2.7	17.4
Kirin Y		826¼	-7	879¼	621	8,697	0.7	32.3
Macallan-Glen		169	—	317	150	197.2	1.1	34.5
Matthew Clark		780	—	793	580	697.8	3.5	–
Merrydown		124	—	148	66	13.5	2.0	–
Seagram S		£22½	+¼	£25¼	£17⅝	8,404	1.2	–

BANKS, MERCHANT

	Notes	Price	+ or –	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 9pc Cm 2nd Pf		50½xd	—	60½	50½	6.31	19.0	–
Cater Allen		403	—	526	403	131.4	9.3	6.1
Close Bros		383	-2	392	271½	437.4	3.1	16.1
Gerrard & Natl		370	—	472	370	180.9	7.6	11.9
Hambros		237	-1	252	180	415.8	4.9	–
7½pc Cv Pf		113	—	117	94½	149.6	8.3	–
King & Shaxson		174	+2	174	110	45.9	6.5	13.5
Leopold J		453	—	463	353	24.0	5.2	15.8
Rea Brothers		58	—	67	44	20.0	2.2	27.5
Schroders		1338	+13	1478	1089	2,020	1.5	18.6
N/V		1043	+3	1196	890	454.9	1.9	14.6
Singer & Fried		111xd	+1	115	90	318.2	4.5	9.2
8½pc Cv Ln 08/14		£734½	—	3167	£1⅞	41.2	6.3	–
Union		107	—	121	71	26.9	3.7	Φ

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

Approved by the Inland Revenue

INVESTMENT TRUSTS - Cont.

Net asset values supplied by NatWest Securities Limited as a guide only. See guide in London Share Service

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£39½		£34¼	£28½	2,038	2.7	ϕ
Barlow	♣†	£13½	+½	£19½	£5⅞	1,338	2.1	-
Gold Flds Prop R		136	-4	170	130	13.9	6.6	10.0
MK Props.		75		86	75	3.81	12.8	-
SASOL	♥	649	+9	710	475	3,480	1.8	-
SA Brews		£18½	+¼	£26¼	£17¼	5,577	2.0	ϕ
Standard Bank	□	£22⅛	+¼	£32⅞	£20½	2,659	1.7	19.3
Tiger Oats	†	885	+30	1270	805	1,258	2.1	19.2
Tongaat-Hulett		813xd	-62	1347	885	769.8	2.4	ϕ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ϕ Unregulated collective investment scheme.

s Yield based on annualised dividend	F Yield based on prospectus or other official estimates for 1996-97.	FD (Foreign Income Dividend)
b Figures based on prospectus or other official estimates	G Assumed yield after pending scrip and/or rights issue.	R Forecast annualised yield, p/e based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.	H Yield based on prospectus or other official estimates for 1995.	W Pro forma figures.
h Assumed dividend yield after scrip issue.	K Yield based on prospectus or other official estimates for 1996	Z Dividend yield to date.
j Rights issue pending	L Estimated annualised yield, p/e based on latest annual earnings.	Abbreviations:
q Earnings based on preliminary figures.	M Yield based on prospectus or other official estimates for 1995-96.	xd ex dividend;
a Dividend yield excludes a special payment.	N Dividend is paid in whole or part as a	xc ex scrip issue;
t Indicated dividend yield, p/e ratio based on latest annual earnings.		xr ex rights;
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings		xa ex all;
z Dividend yield includes a special payment		xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £7350 a year for each security shown, subject to the Editor's discretion

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Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.

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For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also available on the internet at www.FT.com.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGED FUNDS NOTES

[illegible]

LONDON STOCK EXCHANGE

MARKET REPORT

Bid action returns to revive a struggling Footsie

By Philip Coggan, Markets Editor

The return of bid activity gave a lift to the London stock market and helped to keep investor interest alive on what might otherwise have been a difficult beginning to the holiday shortened trading week.

With the school half-term holidays adding to the temptations of an extra long weekend, volume was light, with only 517m shares traded by the 6pm count.

The effect of stocks going ex-dividend knocked around 2.5 points off the FT-SE 100 index and equities received no help from gilts, which were broadly unchanged ahead of today's £3bn long-dated auction. In addition, the political background remained shaky, with further weekend press stories of splits in the Conservative party over European policy.

Much of the impetus behind the market came, therefore, from Scottish Power's £1.52bn bid for Southern Water and the potential of a rival offer emerging from Southern Electric.

Shares were lifted across the utilities sector, as traders sought out other plausible takeover candidates. The sector provided four of the top five performers in the FT-SE 100 index and the best four shares in the FT-SE Mid-250 index.

Even so, takeover fever took its time to infect the overall market and the Footsie opened the day only 2.9 points ahead. The leading index gradually edged higher during the morning and reached its peak of 3,770.6, up 18.5, after Wall Street initially traded higher.

A turnround in the US market, which saw the Dow Jones Industrial Average around 45 points lower when the London market closed, took the shine off the Footsie, which ended only 8.1 points ahead at 3,760.2. The Mid-250 index managed a 14.4 gain at 4,504.4.

Mr Mark Brown, head of strategy and economics at ABN-Amro Hoare Govett, argued that yesterday's market developments were "the last throes of the takeover boom, generated by the political timetable". He has a long standing end-year forecast of 3,500 for the Footsie, although he said there is a danger that the index might fall to 3,300.

The risk to his forecast, said Mr Brown, is that "the UK has already performed very badly relative to the rest of the world this year. There tends to be a natural rotation in favour of lagging markets."

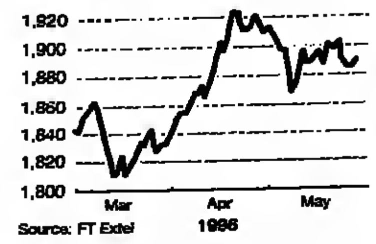
Mr Michael Hughes, global strategist at Barclays de Zoete Wedd, is sanguine. With the market at current levels, he sees little to worry about, given that institutional liquidity is strong, valuations are not extreme and the recent results season was on the high side of expectations.

With plausible arguments on the bullish and bearish side, the market seems to be trapped for the moment in a narrow range, with the Footsie hovering between 3,650 and 3,850 for much of this year.

It may need a substantial bid for a company outside the utilities sector to revive investor enthusiasm. So far, there have been many takeover rumours in sectors such as banking but little in the way of action.

The value of retail business on Friday was £1.73bn, its lowest level for more than a week.

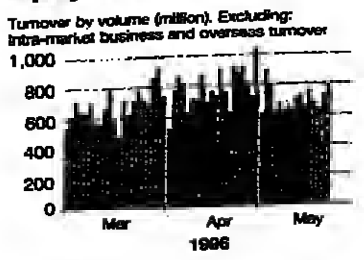
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3760.2	+8.1
FT-SE Mid 250	4504.4	+14.4
FT-SE-A 350	1904.6	+4.6
FT-SE-A All-Share	1889.89	+4.02
FT-SE-A All-Share yield	3.78	3.79
FT Ordinary Index	2793.6	+8.1
FT-SE-A Non Fins p/e	16.91	16.90
FT-SE 100 Fut Jun	3764.0	+9.0
10 yr Gilt yield	8.04	8.04
Long gilt/equity yld ratio:	2.21	2.21

Best performing sectors

1	Water	+7.0
2	Gas Distribution	+3.2
3	Utilities	+1.8
4	Telecommunications	+1.3
5	Pharmaceuticals	+1.1

Worst performing sectors

1	Tobacco	-0.9
2	Retailers, Food	-0.8
3	Oil, Integrated	-0.6
4	Electricity	-0.6
5	Property	-0.5

Takeover offer lifts waters

Takeover premium returned to the London market as Scottish Power announced a £1.5bn offer for Southern Water, and Southern Electric said it was also in talks with the water company.

Southern Water was pumped up 260 to 941p by the news. The consensus among analysts was that Southern Electric might pull out, rather than start a bidding war. And belief that it will seek solace elsewhere boosted the other water stocks.

If Southern Electric did back off, it could plausibly go for Wessex, which offers regional overlap. And the rec/water link-up theory spread to Thames, Yorkshire and Anglian, seen as respective targets for London, Yorkshire Electricity and Eastern.

Thames gained 17 at 564p, Yorkshire rose 53 to 690p with the additional impetus of share buyback hopes, and Anglian – which reports full-year figures today – improved 32 to 572p.

Meanwhile, the main bidders both fell back. Scottish Power lost 17 at 319p in turnover of 3.3m, while Southern Electric dropped 26 to 726p.

Elsewhere in the sector, United Utilities jumped 25 to 581p on reports that it will announce a bumper dividend when it unveils its annual results on Thursday.

Conglomerate Tomkins ran up against clear selling pressure, sliding to its 52-week low. The stock was said to have suffered from "no news syndrome" as investors, eager for greater financial detail on Gates Rubber, appeared to lose patience. Financial documents relating to the $1.4bn US takeover were initially expected at the beginning of May. Tomkins closed 4 cheaper at 247p in 3.7m traded.

Telecoms shares sprang to life following a number of broker recommendations. Morgan Stanley moved to "outperform" at BT and ABN Amro Hoare Govett and Société Générale Strauss Turnbull were positive on cellular shares.

ABN napped both Vodafone and Cable and Wireless (which runs the One-2-One system) as best buy stocks in research which highlighted rapid, liberalisation-led growth within Europe's cellular market.

The broker expects the European market to grow by 25 per cent over the next five years, and said the process will receive additional publicity today when Bouygues Telecom launches France's third mobile phones network.

Otherwise, City talk was all about BT hitting back in the telecoms promotional war.

The sector leader, which is stepping up discounts for business calls, ended 5½ better at 340p in 10m traded, with a further 3.5m equivalent passing through the traded options pits. C&W added 6 at 456p and Vodafone gained 2 at 253p.

Takeover moves in utilities rippled through the financial sector which saw direct spin-offs.

Prudential, which is also benefiting from a Lehman Brothers recommendation, put on 3 at 427p as some investors appreciated the benefits of its 8 per cent stake in Southern Water. The rise in Southern Water shares yesterday equated to an extra 1.6p on the Pru's net asset value.

And Royal Bank of Scotland, which is to arrange Scottish Power's financing with the help of UBS, dipped 3 to 523p as the general takeover enthusiasm reawakened the rumour that it is interested in Bank of Scotland. BoS gained 4 at 267p.

Venture capital group 3i slid 15 to 452p in anticipation of a large backwash of stock flooding into the market. NatWest Group announced that it intended to sell a 17.7 per cent stake in mid-June, subject to market conditions.

Schroders, the merchant bank, moved up 13 to 1338p in response to an upgrade from SBC Warburg. The broker forecast the group to make £235m profit for 1996, against the £220m consensus forecast by £10m to £235m.

Leading engineer Rolls-Royce moved ahead in good volume ahead of today's annual meeting.

There were stories emanating from the weekend press that the group was about to announce engine order contracts, and the stock got a mention at several broker morning meetings.

In a dull market, it was enough to run turnover up to 6.4m and push the shares 5 higher to 239p.

Lucas Industries continued to wilt, in spite of Friday's reassurances that the talks with Varity, of the US, were on course to produce a statement of intent early next month. The shares ended 2 easier at 233p in turnover of 4.8m.

In the food manufacturing sector, Unigate, which declined 5 to 400p, bore more of the brunt of the latest turn in the BSE saga than Northern Foods, which hardened a penny to 183p. Analysts said Northern had a higher dividend yield to support it and there was a big institutional buyer in the market.

United Biscuits fell 5 to 221p on fading bid hopes and sentiment that, on a price/earnings ratio of 19, it is overpriced.

Unilever declined 5 to 1223p, with analysts expressing some concern over the immediate outlook for trading, particularly in Germany, an important market.

Sentry Farming rose 15 to 333p on the eve of its annual meeting, where an acquisition will be announced. Carlton Communications gained 6 to 478p ahead of full-year figures due today.

US selling saw British Petroleum move down 6½ to 567½p. Meanwhile, bargain hunters reacted to what they consider an oversold position in British Gas, taking the hard pressed stock up 6 to 177¼p.

Ladbroke, which completed the £100m sale of its Langham Hilton hotel yesterday, experienced a surge of activity. Turnover leapt to 12m shares, the heaviest in the Footsie and well above the daily average for the stock. The share price, which has languished recently, improved 3½ to 191p. Kleinwort Benson was an active buyer on the basis that Ladbroke was "hugely attractive" on fundamentals.

Queens Moat Houses added ¼ at 20¼p after an annual meeting statement which said trading in the first four months in the UK was satisfactory but that there were persistent trading difficulties on the Continent.

Large-scale advertising of its new outlets in the M25 catchment area pushed D.F.S. Furniture up 29 to 557p. One enthusiastic analyst said the much talked about move of the company's stores to London had arrived.

Some clothing retailers were affected by a report by a retail consultancy report on consumer spending. Next fell 12 to 555p, but Dixons benefited from the report's optimism about sales of electrical goods and rose 5 to 499p.

Blacks Leisure climbed 13 to 143p following a 246 per cent rise in full-year profits.

Brewer Bass gained 10 to 809p, basking in last week's results and positive press comment over the weekend.

Enterprise Inns rose 11 to 234p on the back of its deal with John Labatt, while Regent Inns put on 37 at 1100p, a week away from the consolidation of its shares.

Wolverhampton & Dudley slipped 14½ to 638p after last week's disappointing results.

MARKET REPORTERS:
Peter John, Lisa Wood, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	May 28	May 24	May 23	May 22	May 21	Yr ago	†High	†Low
Ordinary Share	2793.6	2785.5	2787.0	2799.0	2815.3	2506.2	2885.2	2696.7
Ord. div. yield	3.98	3.99	3.98	3.97	3.92	4.25	4.08	3.76
P/E ratio net	16.22	16.19	16.21	16.28	16.64	15.87	17.25	15.96
P/E ratio nil	16.01	15.97	15.99	18.08	16.41	16.63	17.03	15.76

Ordinary Share Index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2788.4	2791.4	2794.6	2795.9	2794.8	2794.3	2793.4	2795.9	2795.6	2798.7	2788.4

	May 28	May 24	May 23	May 22	May 21	Yr ago
SEAQ bargains	33,935	31,158	32,593	34,111	35,254	20,303
Equity turnover (£m)†	-	1703.2	2187.5	2256.5	1828.8	952.7
Equity bargains†	-	37,310	38,102	41,641	44,571	30,872
Shares traded (mil)†	-	602.1	789.2	735.7	818.3	575.7

†Excluding intra-market business and overseas turnover.

	May 28	May 24	May 23	May 22	May 21	Yr ago	†High	†Low
FT-SE AIM	1101.10	1094.20	1091.30	1088.30	1089.30	-	1084.50	965.68

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	717	Total Highs	130	Total contracts	20,172
Total Falls	530	Total Lows	29	Calls	11,755
Same	1,487			Puts	8,417

May 28 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3758.0	3764.0	+9.0	3781.0	3758.0	7243	52614
Sep	3772.0	3772.0	+9.0	3784.0	3772.0	545	9869
Dec		3801.0	+9.0			0	727

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4515.0	+20.0			0	4141

■ FT-SE 100 INDEX OPTION (LIFFE) (*3783) £10 per full index point

[illegible]		

Calls 3,241 Puts 2,606

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]		

Calls 1,059 Puts 854 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	May 27	% chg on day	May 24	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index† (31)	2301.48	-0.2	2306.83	1916.73	1.38	-	2620.73	1722.83
■ Regional Indices								
Africa (13)	3073.61	-0.5	3090.31	2533.89	2.35	42.91	3553.86	2272.74
Australasia (6)	2578.83	+0.1	2575.40	2261.77	2.54	28.90	2827.34	2098.51
North America (12)	2043.44	-0.1	2046.30	1695.07	0.88	71.85	2186.39	1488.94

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FT - SE Actuaries Share Indices — The UK Series

	May 28	Day's chge%	May 24	May 23	May 22	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3760.2	+0.2	3752.1	3747.0	3764.2	3309.8	4.01	2.18	14.44	78.35	1534.67
FT-SE Mid 250	4504.4	+0.3	4490.0	4501.4	4512.3	3842.8	3.34	1.75	21.43	82.82	1805.27
FT-SE Mid 250 ex Inv Trusts	4543.7	+0.4	4527.1	4539.9	4551.1	3651.0	3.44	1.80	20.22	88.03	1824.11
FT-SE-A 350	1904.6	+0.2	1900.0	1899.1	1908.8	1645.6	3.86	2.08	15.58	38.86	1588.90
FT-SE-A 350 Higher Yield	1830.1	+0.5	1820.8	1816.0	1825.4	1665.6	5.12	1.82	12.69	46.05	1275.84
FT-SE-A 350 Lower Yield	1986.4	....	1986.8	1987.5	1995.7	1624.9	2.71	2.35	19.87	31.55	1374.02
FT-SE SmallCap	2231.82	-0.1	2233.89	2236.97	2239.03	1857.19	2.91	1.77	24.29	27.88	1828.31
FT-SE SmallCap ex Inv Trusts	2227.88	-0.1	2230.57	2233.85	2236.30	1836.28	3.08	1.86	21.90	29.37	1838.25
FT-SE-A ALL-SHARE	1889.89	+0.2	1885.87	1885.24	1892.50	1627.94	3.78	2.08	16.04	37.18	1601.09

■ FT-SE Actuaries All-Share

	May 28	Day's chge%	May 24	May 23	May 22	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3527.19	-0.3	3539.00	3534.91	3532.41	2850.31	3.80	1.83	17.96	79.03	1518.62
12 Extractive Industries(6)	4548.87	+1.1	4501.18	4463.40	4481.73	3744.52	3.56	2.50	14.08	109.18	1338.59
15 Oil, Integrated(3)	3552.71	-0.6	3575.88	3574.65	3567.84	2853.53	4.03	1.72	18.00	81.84	1569.91
16 Oil Exploration & Prod(15)	2483.22	....	2482.26	2494.18	2499.83	2063.63	2.11	1.62	38.70	33.06	1494.47
20 GEN INDUSTRIALS(276)	2104.65	.....	2103.94	2104.39	2117.38	1857.61	4.03	1.80	18.33	35.72	1149.50
21 Building & Construction(34)	1206.19	-0.2	1208.81	1210.45	1216.84	1000.37	3.42	1.80	20.35	20.28	1011.32
22 Building Matls & Merchs(29)	1917.69	+0.2	1914.35	1918.24	1938.55	1825.62	3.95	1.75	18.09	36.36	969.98
23 Chemicals(25)	2531.84	-0.1	2535.17	2532.64	2533.51	2428.72	3.92	1.92	16.60	48.01	1201.45
24 Diversified Industrials(19)	1700.68	-0.4	1707.37	1711.51	1729.46	1863.84	6.07	1.72	11.96	44.82	953.52
25 Electronic & Elect Equip(37)	2462.99	+0.1	2459.80	2441.72	2445.57	2029.64	2.98	1.67	25.13	14.16	1271.13
26 Engineering(71)	2462.07	+0.5	2451.00	2449.23	2466.23	1964.31	3.10	2.48	18.26	30.07	1482.28
27 Engineering, Vehicles(13)	3050.31	+0.1	3047.11	3055.39	3061.83	2287.70	3.49	1.89	18.95	52.51	1583.51
28 Paper, Pckg & Printing(26)	2728.48	-0.3	2736.13	2754.31	2771.58	2971.72	3.73	2.03	16.48	41.82	1136.33
29 Textiles & Apparel(19)	1391.39	+0.8	1383.29	1384.40	1384.49	1689.38	5.07	1.54	16.03	35.20	854.69
30 CONSUMER GOODS(90)	3556.31	+0.5	3538.94	3537.82	3848.88	3083.76	3.95	1.87	16.90	78.58	1318.48
32 Alcoholic Beverages(9)	2819.86	-0.4	2806.05	2820.94	2829.02	2743.23	4.44	1.62	17.41	71.72	1023.45
33 Food Producers(23)	2445.80	-0.1	2448.38	2452.22	2456.03	2464.12	4.24	1.84	16.03	57.54	1109.61
34 Household Goods(15)	2671.58	+0.2	2667.26	2666.49	2668.74	2589.00	3.72	2.41	13.95	55.78	1024.92
36 Health Care(20)	2082.85	+0.2	2078.40	2072.78	2094.07	1738.86	2.56	1.87	26.11	28.16	1268.28
37 Pharmaceuticals(12)	5100.83	+1.1	5045.34	5076.39	5099.20	3611.25	3.34	1.88	19.97	81.18	1735.94
38 Tobacco(1)	4375.21	-0.8	4413.33	4252.38	4258.82	4136.79	5.61	2.12	10.15	156.18	1099.02
40 SERVICES(253)	2537.24	.....	2538.34	2539.10	2542.85	2027.99	2.81	2.04	21.76	43.10	1323.88
41 Distributors(32)	2968.13	-0.1	2971.01	2968.72	2982.27	2577.81	2.84	1.76	24.99	38.37	1095.49
42 Leisure & Hotels(23)	3168.89	+0.4	3157.13	3160.37	3174.10	2333.21	2.78	1.96	23.01	141.77	1706.54
43 Media(46)	4248.78	+0.1	4247.05	4253.44	4267.50	2977.50	2.10	1.94	30.73	47.99	1539.69
44 Retailers, Food(15)	2026.38	-0.8	2041.81	2021.82	2003.98	2016.92	3.74	2.31	14.45	48.47	1301.57
45 Retailers, General(43)	2069.29	-0.4	2078.24	2084.06	2098.09	1658.21	3.00	2.16	16.15	36.87	1188.07
47 Breweries, Pubs & Rest.(24)	3163.31	-0.7	3141.66	3148.02	3136.66	2395.21	3.21	2.14	16.16	31.74	1516.14
48 Support Services(49)	2439.98	.....	2439.44	2440.97	2428.24	1817.21	1.88	2.46	27.06	24.06	1552.10
49 Transport(21)	2425.15	+0.2	2420.92	2422.31	2424.98	2261.62	3.63	1.50	22.95	28.86	1007.93
60 UTILITIES(33)	2372.45	+1.8	2330.40	2326.20	2342.84	2368.01	5.47	2.06	11.07	46.98	1006.41
62 Electricity(12)	2655.85	-0.6	2671.51	2665.76	2672.02	2246.71	5.85	2.37	8.99	137.11	1278.34
64 Gas Distribution(2)	1200.57	+3.2	1163.15	1182.35	1198.35	1981.63	6.98	1.36	9.24	68.67	629.71
66 Telecommunications(7)	2012.66	+1.3	1987.59	1974.90	2007.59	2053.67	4.35	1.90	15.10	0.15	911.15
68 Water(12)	2175.14	+7.0	2032.37	2037.36	2001.72	1839.86	5.61	2.59	8.61	3.61	1179.58
69 NON-FINANCIALS(665)	2012.93	+0.3	2007.33	2006.75	2013.56	1749.76	3.79	1.95	18.81	38.42	1529.63
70 FINANCIALS(105)	2899.85	....	2899.28	2897.38	2918.63	2390.76	4.12	2.66	11.43	71.88	1255.47
71 Banks, Retail(8)	3939.48	-0.1	3942.41	3938.03	3965.10	3180.15	3.95	2.90	10.92	110.04	1297.33
72 Banks, Merchant(6)	3626.00	+0.4	3609.89	3625.56	3610.58	3275.72	2.72	2.38	19.32	36.39	1148.65
73 Insurance(23)	1524.74	+0.4	1518.87	1519.38	1527.08	1347.91	5.16	3.34	7.23	47.23	1156.36
74 Life Assurance(6)	3506.69	+0.5	3489.61	3448.24	3485.11	2691.69	4.26	2.24	13.09	100.72	1470.03
77 Other Financial(21)	2739.69	+0.1	2737.80	2748.84	2755.18	2022.15	3.77	1.72	18.31	29.60	1554.05
79 Property(41)	1531.59	-0.5	1539.68	1551.03	1560.60	1457.06	4.14	1.30	23.19	14.54	937.97
80 INVESTMENT TRUSTS(125)	3231.36	-0.3	3242.01	3242.51	3245.79	2785.44	2.16	1.06	54.63	26.87	1127.63
89 FT-SE-A ALL-SHARE(895)	1889.89	+0.2	1885.87	1885.24	1892.50	1627.94	3.78	2.06	16.04	37.18	1601.09
FT-SE-A Fledgling	1271.16	+0.2	1268.57	1267.71	1265.32	1006.41	2.71	2.20	20.96	13.78	1328.65
FT-SE-A Fledgling ex Inv Trusts	1283.19	+0.2	1280.04	1278.70	1275.79	1002.78	2.61	2.38	18.05	14.92	1341.42

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3755.0	3791.4	3765.7	3767.6	3766.4	3767.3	3767.2	3769.9	3752.9	3770.6	3755.0
FT-SE Mid 250	[illegible]										
FT-SE-A 350	[illegible]										

Time of FT-SE 100 Day's high: 2:47 PM Day's low: 8:30 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 3632.2 (23/01/96)

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]											
Pharmaceuticals	[illegible]											
Water	[illegible]											
Banks, Retail	[illegible]											

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TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]			

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 28 / Sch)

BELGIUM/LUXEMBOURG (May 28 / Frs.)

CZECH REP (May 28 / Korona)

DENMARK (May 28 / Kr)

FINLAND (May 28 / Mkk)

FRANCE (May 28 / Frs.)

GERMANY (May 28 / Dm.)

GREECE (May 28 / Drachma)

ITALY (May 28 / Lire)

NETHERLANDS (May 28 / Fls.)

NORWAY (May 28 / Kroner)

POLAND (May 28 / Zloty)

PORTUGAL (May 28 / Escudo)

SPAIN (May 28 / Pta.)

SWEDEN (May 28 / Kronor)

SWITZERLAND (May 28 / Frs.)

TURKEY (May 28 / TK Lira)

PACIFIC

JAPAN (May 28 / Yen)

HONG KONG (May 28 / H.K.$)

INDONESIA (May 28 / Rupiah)

MALAYSIA (May 28 / MYR)

NEW ZEALAND (May 28 / NZ $)

SINGAPORE (May 28 / S$)

AUSTRALIA (May 28 / Aust$)

SOUTH KOREA (May 28 / Won)

TAIWAN (May 28 / TW $)

THAILAND (May 28 / Baht)

AFRICA

SOUTH AFRICA (May 28 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 28 / Can $) 4 pm close

MONTREAL (May 28 / Can $) 4 pm close

INDICES

	May 28	May 27	May 24	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	18498.15	18534.98	18881.95	20/5	15628.61	19/3
Australia							
All Ordinaries(1/1/80)	2262.7	2261.1	2254.2	2328.00	26/4	2187.40	11/3
All Mining(1/1/80)	1072.4	1070.4	1065.1	1118.40	8/5	1004.70	16/1
Austria							
Credit Aktien(30/12/84)	393.00	(c)	392.10	394.34	22/5	352.78	2/1
Traded Index(2/1/91)	1142.51	(c)	1134.10	1142.51	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1773.26	(c)	1768.24	1773.26	28/5	1574.80	2/1
Brazil							
Bovespa(29/12/83)	(u)	56280.0	56007.0	58815.09	22/5	43901.00	2/1
Canada							
Metals Mins♦(1975)	(u)	5411.02	5397.17	5824.60	8/5	4687.47	16/1
Composite♦(1975)	(u)	5235.50	5229.90	5238.99	22/5	4739.70	15/1
Portfolio§§(4/1/83)	(u)	2565.55	2563.86	2566.55	27/5	2327.39	12/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5437.37	5473.98	5804.33	8/1	5215.28	8/4
Denmark							
CopenhagenSE(3/1/83)	407.87	(c)	405.10	407.87	28/5	388.40	2/1
Finland							
HEX General(28/12/90)	2044.86	2056.05	2034.64	2058.05	27/5	1851.67	10/1
France							
SBF 250(31/12/90)	1456.83	(c)	1448.97	1456.83	28/5	1250.16	2/1
CAC 40(31/12/87)	2132.80	(c)	2117.65	2148.79	30/4	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	902.02	(c)	898.46	904.83	23/5	818.56	2/1
Commerzbank(1/12/53)	2591.7	(c)	2581.4	2601.90	23/4	2370.28	2/1
DAX‡(30/12/87)	2558.30	(c)	2542.24	2570.78	21/5	2284.86	2/1
Greece							
Athens SE(31/12/80)	918.83	915.08	910.65	1017.98	4/3	801.83	29/4
Hong Kong							
Hang Seng(31/7/64)	11107.02	11081.89	11019.18	11594.99	16/2	10204.87	2/1
India							
BSE Sens.(1979)	3636.9	3653.10	3709.25	3999.87	24/4	2828.88	25/1
Indonesia							
Jakarta Comp.(10/8/82)	620.98	620.67	618.06	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2526.54	2530.00	2536.34	2547.29	21/5	2234.81	2/1
Italy							
Banca Comm Ital(1972)	669.05	663.77	662.32	674.10	20/5	572.21	23/3
MIB General(2/1/96)	1135.0	1125.0	1122.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21944.53	21690.76	21708.43	22282.85	24/4	19734.70	13/3
Nikkei 300(1/10/82)	309.50	306.59	307.33	318.86	26/4	284.48	11/3

	May 28	May 27	May 24	1996 High		1996 Low	
Japan							
Topix(4/1/68)	1675.23	1658.44	1664.55	1718.00	26/4	1524.12	13/3
2nd Section(4/1/68)	2198.40	2187.16	2204.03	2243.28	2/5	1952.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1141.98	1140.70	1151.89	1189.54	30/4	983.18	2/1
Mexico							
IPC(Nov 1978)	(u)	3327.24	3313.10	3392.88	22/5	2736.28	8/3
Netherland							
CBS TtlRtnGen(End 83)	646.3	(c)	642.1	646.30	28/5	539.50	2/1
CBS All Shr(End 83)	383.6	(c)	381.1	383.60	28/5	326.70	2/1
New Zealand							
Cap. 40(1/7/86)	2046.98	2059.46	2068.3	2203.88	4/1	2044.71	24/1
Norway							
Oslo SE(Ind)(2/1/83)	1428.56	(c)	1422.48	1444.72	29/4	1259.88	30/1
Philippines							
Manila Comp(2/1/85)	3247.76	3256.10	3213.09	3258.10	27/5	2578.97	2/1
Portugal							
BVL 30(4/1/93)	1873.08	1877.58	1881.82	1889.89	23/5	1802.81	2/1
Singapore							
SES All-S'pore(2/4/75)	589.79	589.01	585.95	610.37	5/2	553.89	2/1
South Africa							
JSE Gold(28/9/78)	2011.3♥	1984.1	1973.1	2089.90	17/5	1346.40	2/1
JSE Ind.(28/9/78)	7867.6♥	7794.7	7789.5	8739.30	25/1	7723.20	20/5
South Korea							
KoreaCmpEx""(4/1/80)	906.21	920.43	(c)	986.84	7/5	838.87	13/3
Spain							
Madrid SE(30/12/85)	365.01	363.78	362.83	365.81	28/5	323.75	11/1
Sweden							
AffarsvardnGen(1/2/37)	1987.9	(c)	1990.3	2085.50	20/5	1706.80	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1735.43	(c)	1727.64	1779.54	26/4	1516.19	17/1
SBC General(1/4/87)	1226.47	(c)	1222.4	1250.89	26/4	1114.47	26/1
Taiwan							
WeightedPr.""(30/6/66)	5858.54	5898.45	5934.81	6182.78	29/4	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	1308.20	1311.20	1299.55	1415.04	6/2	1247.79	13/3
Turkey							
Istanbul Comp.(Jan 1986)	58076.4	58752.4	61123.9	72086.80	8/4	38279.39	2/1
WORLD							
MS Capital Int$(1/1/70)	778.3*	776.8	777.3	780.30	22/5	725.90	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1699.17	(c)	1688.85	1699.17	28/5	1504.40	11/1
Euro Top-100(26/6/90)	1449.22	1442.98	1441.16	1458.28	26/4	1333.01	11/1
HSBC JC Drgn(31/12/88)	(u)	378.52	378.52	393.18	16/4	344.19	2/1
ING Brngs Emrg(7/1/92)	161.54	161.99	161.84	164.14	14/5	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x Index)							
May	2126.0	2133.5	+14.5	2147.0	2128.0	22,019	27,436
Jun	2104.5	2113.0	+14.5	2126.5	2104.5	10,010	35,716
■ DAX							
Jun	2559.0	2582.5	+8.5	2569.0	2556.0	12,281	-
Sep	2575.5	2581.0	+8.0	2586.0	2575.5	241	-

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ OMX							
May	1562.00	1558.50	+2.50	1562.50	1555.00	1,142	16,368
Jun	1567.00	1563.00	-15.00	1567.00	1563.00	30	1,045
■ SOFFEX							
Jun	3549.9	3552.0	+7.60	3559.0	3540.0	5,588	27,287
Jul	-	3555.0	-	-	-	60	2,837

- Sat May 25: Taiwan Weighted Price 5909.41; Korea Comp Ex 911.76. Base values of all indices are 100 except: Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 26 Industrials - 264.3. NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 28 - 2559.15 +9.62.

US INDICES

Dow Jones	May 24	May 23	May 22	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5762.86	5762.12	5778.90	5778.00 (22/5)	5032.94 (18/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.98	101.67	101.75	106.09 (14/2)	101.16 (8/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2275.94	2280.79	2296.20	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	12.32 (8/7/32)
Utilities	214.93	213.67	215.41	234.00 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5815.68 (5833.04) Low 5722.50 (5704.12) (Theoretical♦)
Day's high 5788.72 (5796.10) Low 5745.13 (5728.50) (Actual♦)

Standard and Poors							
Composite‡	678.51	676.00	678.42	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	807.32	805.00	806.72	807.32 (24/5)	702.07 (15/1)	807.32 (24/5/96)	3.62 (21/6/32)
Financial	68.00	67.67	68.11	68.58 (5/3)	58.87 (10/1)	68.58 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	363.74	362.43	363.69	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	613.05	612.68	614.99	614.89 (22/5)	529.05 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1247.81	1248.65	1247.38	1248.65 (23/5)	988.57 (15/1)	1248.65 (23/5/96)	54.87 (31/10/72)

■ RATIOS

	May 24	May 17	May 10	Year ago
Dow Jones Ind. Div. Yield	2.15	2.17	2.20	2.53
	May 22	May 15	May 8	Year ago
S & P Ind. Div. yield	1.83	1.86	1.92	2.21
S & P Ind. P/E ratio	22.71	21.98	21.26	18.77

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
LSI Logic	0,589,300	29¾	-2½
K-Mart	6,693,900	11	+¾
Ph Morris	8,422,500	103½	-⅜
Stone Cont	0,041,900	16¼	-⅛
HFS	4,915,700	62⅞	-⅛
RJR Nabisco	4,442,200	33⅝	+⅜
Bay Network	3,802,200	29⅞	-1⅛
Nokia	3,465,500	40¾	+1½
Ford Motor	3,256,500	36¼	-⅛
Coca Cola	3,186,300	47⅝	+1⅛

■ TRADING ACTIVITY

● Volume (million)

	May 24	May 23	May 22
New York SE	331.267	434.850	423.855
Amex	34.170	33.599	29.301
NASDAQ	626.131	776.830	711.852
NYSE			
Issues Traded	3,122	3,181	3,147
Rises	1,158	996	1,306
Falls	1,059	1,333	1,011
Unchanged	895	832	830
New Highs	107	162	178
New Lows	23	21	18

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	680.70	680.90	+0.30	682.10	680.90	46,436	175,569
Sep	687.70	687.00	+0.65	687.95	687.00	1,104	21,671

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Jun	21870.0	22050.0	+260.0	22070.0	21830.0	23,210	269,078
Sep	21950.0	22150.0	+270.0	22150.0	21910.0	11,260	55,422

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

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■ TOKYO - MOST ACTIVE STOCKS: Tuesday, May 28, 1996

	Stocks Traded	Closing Prices	Change on day
Kanematsu	12.4m	730	+15
Chori	4.6m	558	+80
Pasco Corp	4.5m	747	+81
Nagasakiya	4.0m	1000	+13
Kobe Steel	3.9m	303	+1
Bk Tk-M'bishi	3.8m	2530	+40
Fuji Hvy Inds	3.3m	496	-2
Daiichi Kgyo B	3.2m	1910	-20
Matsushita E Ind	3.2m	1840	
Japan Syn Rubber	3.1m	764	+57

NEW YORK STOCK EXCHANGE PRICES

4 pm close May 28

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23¾	19⅛	AAR	0.40	2.2	24	00	22⅛	22¼	22¼	-⅛
46⅛	36⅞	AMP	1.00	2.3	21	2814	43	42⅝	42⅝	-⅜
97½	68	AMR			23	4709	94⅛	93⅛	93¼	-⅝
50½	37⅞	ASA 4	1.90	4.1	29	737	44½	44	44¾	+⅜
44¾	38⅛	AbbotL	0.96	2.3	19	9656	43	42⅛	42⅜	-⅜
17⅛	13⅞	Abitibi Pr	0.40	2.9	7	398	14	13⅞	13⅞	
36	27	ABM Ind	0.70	2.0	18	3	35	35	35	
17⅛	13⅞	Acptncetn			44	20	17	16¾	16⅞	-⅛
50⅜	37¾	ACE Ltd	0.56	1.2	11	802	48⅝	40	46½	-⅛
9⅞	8⅜	ACM Gvt In	0.90	8.2	8	328	u9⅞	8¾	9¾	-⅛
7⅞	6¾	ACM GvOpp	0.57	8.1		226	7	6⅞	7	+⅛
7¼	6¼	ACM Gvl Sp	0.65	10.2		312	9½	6⅜	8½	+⅛
9⅛	8¼	ACM Gvl Se	0.90	10.4		132	8⅝	8½	8⅝	
9½	8¾	ACM Man	0.90	10.0		215	9⅛	9	9	
36¾	16½	AcmeClv	0.52	1.7	7	44	30¼	30⅛	30⅛	
13⅞	6⅜	Acme Elect			65	986	12⅜	11¾	11⅞	+½
32½	27¾	Acordia	0.72	2.3	19	3	31⅞	31⅞	31⅞	+⅛
21⅜	12	Acuson			88	847	19½	18	18⅛	-⅜
19½	18⅜	Adams Expr x	1.96	8.7	0	195	19¼	19⅛	19⅛	-⅜
21¼	16⅛	AdvMic			7	3683	17⅞	17¾	17¾	+½
11⅛	6½	Advest Grp	0.16	1.5	7	176	10⅞	10¾	10⅞	-⅛
26⅛	9⅛	Advo Inc	0.10	0.8	60	1121	11	10¾	10⅞	
50⅜	41⅛	Aegon	1.23	2.5	15	45	49⅛	48⅜	49⅛	+⅜
6¾	3½	Aerfix			3	776	6⅛	5⅞	6	-⅛
70¾	68⅛	AetnaL	2.70	3.7	18	3493	74⅛	73⅞	74	-⅜
33	28¾	Aflac x	0.40	1.3	13	2011	31¼	30¾	31⅛	
20⅜	17½	AGL Res	1.06	6.0	15	320	17⅞	d17½	17⅝	-¼
28¾	21¼	Ahmnsn	0.60	3.4	7	5333	28¼	25¾	30	+⅜
59⅝	50¾	AirPrC	1.10	1.9	15	2459	u59¾	58	59⅜	+⅜
28⅜	23½	Airbne Frt	0.30	1.1	24	109	26⅝	26⅛	26¼	-¼
22½	15½	Airgas Inc			35	598	22	21½	21½	-½
33¼	24	Bearings	0.56	1.9	16	40	30¼	29⅞	29⅞	-¼

Continued on next page

4 pm close May 28

NYSE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close May 28

AMEX PRICES

4 pm close May 28

Price data supplied by Telekurs

AMERICA

Dow enters new century on sour note

Wall Street

The Dow Jones Industrial Average entered its second century of trading on a sour note, turning a small gain at the opening to a near 50-point fall just after midday, *writes Maggie Urry in New York.*

Traders reported across the board selling, which affected the broader indices as well as the Dow.

By 1 pm, the blue chip index was recovering from its morning low and was trading 36.57 down at 5,726.29. Of the 30 constituents, only five were higher.

Other indices also joined in the fall, with the Standard & Poor's 500 retreating 4.22 to 674.29, the American Stock Exchange composite relinquishing 3.09 at 610.86 and the Nasdaq composite off 9.03 at 1,238.77. Volume on the NYSE came to 202m shares.

The equity market had risen initially on the back of a slightly firmer bond market, but as bond prices weakened in the face of new supply and mildly discouraging economic news, stocks also turned down.

Losses affected all sectors, although consumer stocks fared worse than cyclicals. The Conference Board announced a drop in the consumer confidence index in May to 101.2, from April's surprisingly firm 104.8.

The brightest share in the Dow was Boeing, up $1¼ to $85¼ on reports that British Airways had placed an order for 30 aircraft worth $4.2bn.

General Electric, the only remaining one of the Dow's original constituents, fell $1¼ to $83¾. Mr Jack Welch, chairman and chief executive officer of GE, participated in the bell-ringing ceremony at the New York Stock Exchange.

The largest falls in the Dow came from consumer groups such as Coca-Cola, down $1¼ to $46⅞, Procter & Gamble, off $1½ at $88⅞, and Philip Morris, which slid $2⅞ to $100⅞, giving up some of the large gain made at the end of last week following a favourable ruling on the tobacco case.

Among technology stocks, Iomega, the latest shooting star, fell $6½ or 15.3 per cent to $37¾ in heavy trading volume.

There was little corporate news after the extended weekend. However, Baby Superstore lost $10¼ or 29 per cent to $25 on weaker than expected first-quarter earnings. The company reported pricing pressure on commodity lines such as nappies and baby formula.

Canada

Toronto opened strongly on a higher bullion price, but Wall Street's mid-morning downturn undermined the market and the TSE 300 Composite index was down 11.53 by noon at 5,224.00. Volume jumped to 52.84m shares from Monday's holiday affected 28.59m.

The precious metals index at midday was 104.02 firmer at 12,823.34. In base metals, the delayed takeover of Diamond Fields Resources by Inco made DFR shares shiver, but by mid-session they had recovered to C$39.90, up 65 cents.

Caracas off slightly

Profit-taking finally got the better of CARACAS as the market, which had made nine successive closing highs in previous sessions, retreated slightly by midsession. The IBC index was off 21.44 at 4,530.34.

MEXICO CITY was slightly easier as hopes for a further fall in domestic interest rates began to recede.

The IPC index had shed 2.83 to 3,321.41 by midday.

SAO PAULO, in contrast, was firmer although there was an absence of either corporate or economic news. The Bovespa index was up 619.11 at 56,899 by midday.

Analysts said that investors were likely to pay attention to congressional activity this week, particularly discussions of the pension reform after last week's defeat for the government in the lower house on a new social security programme.

BUENOS AIRES was little changed, with the Merval index up an early 2.63 at 612.52.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1996	% change sterling † Start of 1996	% change in US $ † Start of 1996
Austria	+2.42	+1.56	+7.33	+17.14	+11.62	+8.77
Belgium	+1.39	+1.87	+18.27	+8.41	+3.34	+0.70
Denmark	+1.61	+1.70	+13.15	+10.09	+5.20	+2.52
Finland	+2.79	+4.07	+0.96	+13.29	+6.09	+3.38
France	-0.52	-0.61	+9.95	+15.80	+11.42	+8.75
Germany	+0.16	-0.07	+18.30	+10.35	+5.16	+2.47
Ireland	+0.54	+0.97	+28.32	+11.92	+11.84	+8.99
Italy	-1.98	-2.31	+2.73	+9.57	+14.38	+11.47
Netherlands	+1.68	+3.37	+30.00	+16.38	+11.02	+8.18
Norway	+1.18	-2.67	+16.15	+11.21	+9.32	+6.52
Spain	+0.87	+0.16	+24.29	+13.79	+10.33	+7.51
Sweden	+0.34	+2.09	+25.34	+15.08	+14.62	+11.69
Switzerland	-0.56	-3.16	+26.43	+7.93	+0.76	-1.82
UK	-0.99	-2.21	+13.02	+2.53	+2.53	-0.09
EUROPE	-0.25	-0.86	+16.61	+8.68	+6.05	+3.34
Australia	+0.08	-2.91	+10.23	+1.47	+10.78	+7.95
Hong Kong	+1.70	+2.74	+18.60	+11.70	+14.58	+11.65
Japan	-1.13	-3.33	+28.57	+4.19	+2.43	-0.19
Malaysia	-0.29	-2.43	+7.73	+14.09	+19.38	+16.33
New Zealand	-0.66	-3.49	-5.61	-4.59	+2.45	-0.18
Singapore	+2.08	-3.71	+6.09	+3.45	+6.48	+3.76
Canada	+0.46	+1.75	+18.75	+11.42	+13.45	+10.55
USA	+1.26	+3.57	+27.77	+9.95	+12.83	+9.95
Mexico	+2.08	-2.60	+59.34	+21.41	+29.85	+26.34
South Africa	-0.78	-4.77	+22.08	+9.57	-6.04	-8.44
WORLD INDEX	+0.27	+0.44	+23.79	+8.25	+8.47	+5.70

† Based on May 24 1996.

EUROPE

Auchan stakebuilding elevates Docks de France

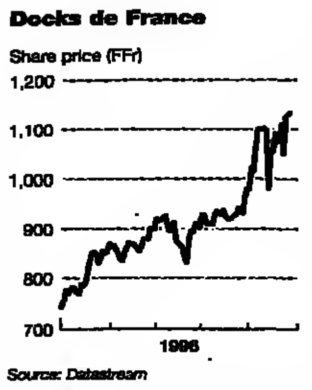
Dollar strength encouraged PARIS, shares in French exporters doing especially well as the CAC-40 index put on 15.25 at 2,132.90; but turnover was low at FFr3.3bn.

On the downside, Canal Plus lost FFr6 to FFr1,232 as speculation continued about a possible merger with Audiofina, of Luxembourg. However, the chairman of Groupe Bruxelles Lambert, Audiofina's parent, denied later that there was an intention to merge the two companies.

Docks de France, the retailer, benefited from news that Auchan, a privately owned company, had lifted its stake from around 11 per cent to 15.45 per cent, the Docks shares moving ahead FFr11 to FFr1,136. Among other retailers, Promodes eased FFr6 to FFr1,301 and Carrefour rose FFr38 to FFr2,859.

Axa gained FFr1.60 at FFr295.80 following an announcement that it intended to list 3.5m shares, in two tranches, on the New York Stock Exchange.

FRANKFURT lagged behind Paris, the Dax index ending 9.62 higher at an Ibis-indicated 2,559.15, in turnover down from DM6.9bn to DM6.1bn. The dollar offered modest help to exporters, like the carmakers and the engineers, but interest centred on Deutsche Bank and Kloeckner Humboldt Deutz.



Source: Datastream

Deutsche Bank reported a 32 per cent increase in net profit in the first four months of the current year, but the impact of this was blunted by news that KHD, the engineer in which Deutsche holds a 48 per cent stake, might face bankruptcy due to irregularities at its Wedag unit. KHD was suspended and Deutsche, ex a DM1.80 dividend, did well to rise a net DM1.11 to DM72.20.

Bearish comment on the broad market came from CS First Boston where Mr François Langlade-Demoyen and Mr David Aserkoff examined last Wednesday's April Ifo indicator of German business confidence, which showed its first increase in five months.

However, said the CSFB duo, details of the Ifo report were negative: export expectations weakened; stocks were still rising; price expectations remained low; and tax rises and spending cuts to meet the Maastricht deficit criteria would continue to restrain consumption, not just in Germany but everywhere in Europe.

AMSTERDAM closed at its third consecutive high, with interest shown in Fortis Amev, the Dutch-Belgian insurer, which moved to a session high of Fl 135 before finishing Fl 3.30 up at Fl 134 following a good set of first-quarter results. The group also said it expected an improvement in full-year results. In Brussels, Fortis made BFr25 to BFr4,180.

The AEX index was finally ahead 3.82 at 568.10 after an intra-day peak of 569.25.

Elsewhere, BolsWessanen continued to suffer, losing Fl 1.20 or 3.7 per cent to Fl 30.70, as sell notes continued to appear from brokers. One broker suggested yesterday that the drinks and foods group could be considered as a takeover target, given its projections of a 20 to 25 per cent fall in full-year earnings.

ZURICH, said a dealer, saw a recovery in some stocks with a heavy weighting in the blue chip SMI index which, accordingly, finished 11.6 higher at 3,583.8.

UBS bearers moved forward SFr15, or 1.3 per cent, to SFr1,199 on speculative buying accompanied by rumours that the bank was planning a press conference in the next few days. A UBS spokesman declined to comment.

Nestlé, seen profiting from a global surge in food stocks, added SFr12 at SFr1,426, and Roche certificates, having broken through a key technical level at SFr9,400, ended SFr100 ahead at SFr9,500.

Zurich Insurance gained SFr4 at SFr328. The company holds its annual press conference today.

HELSINKI was weighed down by forestries, the sector falling 1.7 per cent on doubts that planned pulp price rises would stick, and by Nokia, which lost FM2.20 at FM195 after a year's high on Monday.

The Hex index closed 11.09 lower at 2,044.96. Tampella was another faller, off 75 penni at FM9.55 after Sandvik said it has boosted its stake to over 48 per cent, and Svedala bowed out of a battle for control. But the wholesaler Kesko rose another FM1.20 to FM62 on its Tuko acquisition.

VIENNA ended at a 21-month high and there was a growing conviction that the market still had growth potential. The ATX index rose 8.41 to 1,142.51 and brokers suggested that the 1,160 level was now attainable.

VA Stahl, the steel manufacturer, was sought out and the shares advanced Sch11 to Sch381, a new record. Wienerberger, the building materials manufacturer, was another strong contender, adding 4.9 per cent at Sch2,225, while OMV, the oil and chemicals group, succumbed to profit-taking, losing Sch2 to Sch1,100.

MILAN was supported by Eni, the oil and chemicals group, which continued to attract strong foreign demand. The Mibtel index improved 73 to 10,625, and the Comit advanced 5.89 to 669.66.

Eni, up L67 at L7,254, was also supported by the fact that the company is due to be included in the Morgan Stanley Capital International Italian index on June 3.

WARSAW fell for the sixth consecutive session, but there was a feeling that the market could start to stabilise, especially as some bargains were beginning to appear in selected stocks.

The Wig index shed 0.6 per cent to 11,855.7, while turnover eased by 2.4 per cent to 85.3m zlotys.

ISTANBUL dropped another 1.1 per cent ahead of a briefing in which Mr Mesut Yilmaz, the Turkish prime minister, said that he would resign only if the Islamist opposition and his coalition partners agreed to form a coalition to replace his minority administration.

The composite index receded 675.97 to 58,076.45; before news of the briefing it was above the 59,000 mark.

Written and edited by William Cochrane and John Pitt

FT-SE Actuaries Share Indices — THE EUROPEAN SERIES

May 28 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1697.21	1699.42	1698.25	1698.80	1699.31	1699.88	1700.21	1699.17
FT-SE Eurotrack 200	1733.71	1734.04	1733.47	1733.13	1732.09	1734.38	1734.67	1734.50

	May 24	May 23	May 22	May 21	May 20
FT-SE Eurotrack 100	1688.85	1690.78	1687.92	1696.84	1690.84
FT-SE Eurotrack 200	1723.81	1726.13	1728.13	1740.29	1733.46

Base value 1000 (26/10/90) High/day: 100 - 1700.64; 200 - 1735.45 Low/day: 100 - 1697.21 200 - 1731.60 † Partial

ASIA PACIFIC

Export hopes as $ clears Y108 level, Nikkei up 1.1%

Tokyo

The dollar's rise above the Y108 level triggered hopes of higher earnings at export-oriented corporations and the Nikkei average rose 1.1 per cent, *writes Emiko Terazono in Tokyo.*

The 225 index closed 244.77 higher at 21,944.53, after moving between 21,753.52 and 21,992.56. Futures also rose on improved sentiment, prompting arbitrage linked buying.

Volume was 320m shares, against 306.7m. Broker dealers refrained from accumulating positions since yesterday was the final day for May settlement. Orders by overseas investors also failed to materialise due to the holidays in the US and leading European countries on Monday.

The Topix index of all first section stocks rose 16.79 to 1,675.23, and the Nikkei 300 by 2.91 to 309.50. Advances led declines by 809 to 259, with 154 issues unchanged.

In London the ISE/Nikkei 50 index gained 0.90 at 1,457.45.

In the absence of large-lot buying in leading blue chips, speculative stocks led activity. Individual investors chased Kanematsu, the day's most active issue, which was bid at Y730, up Y15. Japan Synthetic Rubber jumped Y57 to Y764, with reports that the company's recurring profits for the year would rise by 22 per cent encouraging buying by private investors.

The railway sector posted the largest rise for the day. East Japan Railway climbed Y10,000 to Y588,000 on its earnings recovery, Nomura Securities and some foreign brokers buying actively. Seibu Railway moved ahead Y360 to Y5,980 and Tobu Railway Y12 to Y697.

The yen's decline helped high-technology stocks: Hitachi added Y20 at Y1,040 and Toshiba Y3 at Y766. Car companies were also higher: Nissan Motor put on Y9 at Y899 and Toyota Y20 at Y2,430.

Banks rose on technical buying, Fuji Bank firming Y50 to Y2,310 and Sanwa Bank Y40 to Y2,050, while a firm brokerage sector had Nomura Securities ahead Y40 at Y2,090.

Steady crude oil prices supported oil refiners and distributors. Showa Shell Sekiyu appreciated Y30 to Y1,170 and Cosmo Oil Y13 to Y694.

In Osaka, the OSE average advanced 163.60 to 23,175.24 in volume of 44.2m shares.

Roundup

Trading in BOMBAY was extended, first by 30 minutes and then by 90, to enable dealing after the result of the confidence vote in the government was known. But it ended when Prime Minister Atal Bihari Vajpayee pre-empted the vote and announced in parliament that he was resigning.

Professionals covered short positions on the last day of trade in the weekly account on the rival National Bourse, and the BSE 30-share index came back from a low of 3,578.29 to close just 16.20 off at 3,636.90.

Analysts said the market was likely to fall today, one broker forecasting a drop of between 50 and 100 points.

SEOUL went back on the downgrade, led sharply lower by Samsung Electronics, the bluest of South Korean blue chips. Trading opened 2½ hours late due to computer failure, and the composite index dropped 14.22, or 1.5 per cent, to 906.21.

Samsung fell by its daily limit, Won4,500 to Won71,500, as investors continued to sell the stock on worries over falling memory chip prices, but the company later dismissed as "nonsense" a research report from HG Asia which said Samsung would post a Won935bn loss this year.

TAIPEI reversed an early gain as worries about a slowdown in the inflow of foreign funds undermined hopes that a weaker local dollar would boost exporters.

The central bank had let the Taiwanese currency fall to a seven-year low, which triggered an early rise in equities. However, by the close the weighted index was down 38.91 at 5,859.54, after a high of 5,925.16. Turnover was T$33bn.

The plastics and textiles sectors fell most, mainly on profit-taking. China Petrochemical slid 40 cents to T$29.80, while Formosa Plastics declined T$1.20 to T$44.60 after newspaper reports suggested that the company was due to sign a $3.8bn contract with China's Fujian provincial government.

BANGKOK gave an unenthusiastic reception to the appointment of the new finance minister, and the SET index finished down 3.00 at 1,308.20. Banks fell 0.6 per cent.

Traders remarked that most investors had viewed the cabinet reshuffle as "a non-event".

SINGAPORE's Straits Times Industrial index put on 6.42 at 2,356.85. Singapore Telecom was again volume leader as it set a two-year high, rising 4 cents to S$3.90 in 11.2m shares dealt on its impending inclusion in the Morgan Stanley Capital index, and after analysts forecast 13 per cent profits growth for 1995/96.

SYDNEY was absorbed by a merger proposal in the banking sector as the All Ordinaries index, limited to a 4.1 points trading range throughout the day, closed 1.6 up at 2,263.7. Turnover was A$356.5m.

A merger proposal involving Metway Bank, Bank of Queensland and two non-bank financial institutions contributed to speculative buying in banks.

St George Bank, whose own attempt to merge with Metway has been terminated by the four-way merger plan, leapt 49 cents to A$8.50. Brokers said this reflected the fact that St George no longer faced the burden of financing its merger.

Speculation that St George might bid for another bank helped to drive Bank of Melbourne up 16 cents to A$7.68.

WELLINGTON was in retreat as the NZSE-40 Capital index approached its lowest point for the year to date. The index ended 12.50 down at 2,046.96. The year's low point was 2,041.21, set on January 24.

MANILA succumbed to profit-taking from domestic investors following last week's 5 per cent climb. The composite index dipped 8.34 to 3,217.76.

S Africa sees strong gain

Equities in Johannesburg saw good gains, with foreign institutions returning to the market. Gold issues attracted demand as bullion held above the $392 an ounce level for most of the session.

The overall index improved 60.4 to 6,749.8 as industrials surged by 72.9 to 7,867.6 and the golds index made 47.7 or 2.4 per cent to 2,011.8.

Among leading stocks, Anglos advanced R1.50 to R280, SAB was R3.25 higher at R126.50, Richemont rose 75 cents to R64.75 and Iscor firmed a cent to R3.45.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MAY 27 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MAY 24 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (80)	205.94	0.4	201.82	140.17	165.03	173.08	0.4	4.24	205.13	201.03	139.62	164.36	172.40	212.18	182.66	167.75
Austria (25)	189.84	0.0	186.04	129.21	152.13	152.04	0.0	1.84	189.84	186.04	129.21	152.13	152.04	199.38	168.11	195.30
Belgium (27)	210.61	0.0	206.40	143.35	168.76	164.56	0.0	4.06	210.61	206.40	143.35	168.76	164.56	215.81	188.06	197.63
Brazil (28)	168.80	0.5	165.43	114.89	135.27	309.86	0.5	2.10	167.88	164.53	114.27	134.54	307.89	171.06	123.97	142.09
Canada (96)	164.14	0.0	160.86	111.72	131.54	163.38	0.0	2.33	164.10	160.81	111.69	131.50	163.34	164.84	134.14	140.63
Denmark (33)	296.04	0.0	290.11	201.49	237.23	238.63	0.0	1.67	296.04	290.11	201.48	237.23	239.63	305.17	275.65	287.44
Finland (23)	196.58	1.8	192.65	133.80	157.53	196.32	1.5	2.54	193.29	189.52	131.63	154.98	193.14	276.11	171.72	214.68
France (97)	164.78	0.0	160.88	132.57	158.26	159.38	0.0	3.00	164.78	160.86	132.57	158.09	159.28	166.39	157.70	158.28
Germany (60)	167.74	0.0	164.38	114.17	134.42	134.42	0.0	1.86	167.74	164.39	114.17	134.42	134.42	174.39	153.83	156.12
Hong Kong (59)	434.67	0.4	425.97	295.85	348.32	431.69	0.4	3.30	432.87	424.21	294.62	346.88	429.91	451.19	348.81	366.55
Ireland (16)	277.30	-0.4	271.75	188.74	222.21	250.34	-0.4	3.42	278.47	272.90	189.54	223.15	251.40	280.08	226.91	226.80
Italy (59)	82.37	0.3	80.73	56.07	66.01	95.95	0.3	2.29	82.15	80.50	55.91	65.83	95.69	84.53	67.22	74.10
Japan (481)	154.15	-0.3	151.06	104.92	123.53	104.92	-0.3	0.73	154.63	151.54	105.25	123.91	105.25	164.58	137.75	154.65
Malaysia (107)	568.37	-1.1	557.01	386.85	455.48	546.30	-1.1	1.47	574.83	563.34	391.25	460.65	550.51	592.26	436.71	464.98
Mexico (18)	1306.88	0.0	1280.73	889.93	1046.87	10596.26	0.0	1.33	1308.59	1282.40	890.66	1048.64	10593.84	1325.85	791.99	948.04
Netherland (19)	295.04	0.0	289.13	200.81	236.43	232.18	0.0	3.09	295.04	289.13	200.81	236.43	232.18	295.60	245.78	260.17
New Zealand (15)	79.07	-0.6	77.49	53.82	63.37	51.37	-0.6	4.48	79.52	77.93	54.12	63.72	51.72	83.49	76.25	82.34
Norway (35)	246.37	0.0	241.44	167.68	197.43	220.57	0.0	2.06	246.37	241.44	167.68	197.43	220.57	255.75	221.17	225.61
Singapore (44)	421.02	-0.4	412.59	286.56	337.39	273.62	-0.4	1.39	422.82	414.36	287.58	338.59	274.60	465.21	355.81	400.46
South Africa (43)	352.93	0.1	345.92	240.25	282.86	356.57	0.1	2.52	352.82	345.75	240.14	282.73	356.41	437.76	338.91	344.78
Spain (37)	178.15	0.3	174.59	121.26	142.77	173.32	0.3	3.30	177.60	174.04	120.88	142.32	172.77	179.68	145.15	149.03
Sweden (46)	348.57	0.0	341.59	237.24	279.33	352.39	0.0	2.79	348.57	341.59	237.24	279.33	352.39	356.99	256.60	259.46
Switzerland (38)	231.70	0.0	227.06	157.70	185.67	181.70	0.0	1.63	231.70	227.06	157.70	185.67	181.70	252.34	191.24	198.16
Thailand (46)	179.76	0.9	176.18	121.87	143.25	175.74	0.9	1.88	177.11	173.57	120.55	141.93	174.12	193.95	146.74	168.32
United Kingdom (201)	230.34	0.0	225.73	156.78	184.58	225.73	0.0	4.10	230.34	225.73	156.78	184.58	225.73	237.43	210.29	215.78
USA (620)	276.24	0.0	270.71	188.02	221.36	276.24	0.0	2.14	276.24	270.71	188.01	221.36	276.24	278.24	214.27	214.27
Americas (771)	252.32	0.0	247.27	171.74	202.20	212.12	0.0	2.13	252.30	247.25	171.72	202.18	212.11	252.40	196.45	199.55
Europe (713)	207.67	0.0	203.51	141.34	166.41	184.72	0.0	3.04	207.59	203.43	141.29	166.35	184.64	211.26	187.00	188.88
Nordic (136)	299.63	0.2	293.63	203.94	240.11	265.75	0.2	2.23	299.00	293.01	203.51	239.60	265.19	302.70	248.35	256.50
Pacific Basin (832)	167.51	-0.2	164.18	114.01	134.24	118.41	-0.2	1.18	167.93	164.57	114.30	134.57	116.70	177.01	148.86	164.15
Euro-Pacific (1547)	184.14	-0.1	180.45	125.33	147.56	142.26	-0.1	2.05	184.34	180.65	125.47	147.72	142.42	190.57	166.51	174.35
North America (729)	269.30	0.0	263.91	183.29	215.81	268.86	0.0	2.14	269.30	263.91	183.29	215.80	268.86	269.33	209.70	208.70
Europe Ex. UK (514)	190.10	0.1	186.29	129.38	152.34	160.04	0.1	2.44	189.86	186.18	129.31	152.28	160.02	192.67	166.29	170.82
Pacific Ex. Japan (351)	291.18	0.0	285.36	198.18	233.34	251.09	0.0	3.00	291.11	285.28	198.13	233.28	251.02	296.68	243.59	256.23
World Ex. US (1757)	185.51	-0.1	181.80	126.26	148.66	145.78	-0.1	2.08	185.70	181.98	126.39	148.81	145.93	191.55	167.36	174.82
World Ex. UK (2162)	211.99	-0.1	207.75	144.29	169.88	179.72	-0.1	1.90	212.12	207.88	144.38	169.98	179.83	213.05	180.73	183.83
World Ex. Japan (1882)	246.49	0.0	241.55	167.77	197.52	234.82	0.0	2.49	246.44	241.51	167.73	197.49	234.57	246.49	204.98	205.37
The World Index (2363)	213.70	-0.1	209.42	145.45	171.25	184.06	-0.1	2.09	213.82	209.54	145.53	171.34	184.16	214.70	183.83	188.83

 CONSTITUENT CHANGE WITH EFFECT 29/5/96: Deletion: Ampolex (Australia). Latest prices were unavailable for this edition. MARKETS CLOSED 27/5/96: Austria, Belgium, Denmark, France, Germany, Netherlands, Norway, Sweden, Switzerland, UK and USA.